

STATE OF MARYLAND

Single Audit Report

Year ended June 30, 2004 with Reports of Independent Auditors

**Report of Independent Auditors on Financial Statements
Audited in Accordance with *Government Auditing Standards*
and Supplementary Schedule of Expenditures of Federal Awards**

The Honorable William Donald Schaefer
Comptroller of Maryland

We have audited the basic financial statements, not included herein, of the State of Maryland (the State) as of and for the year ended June 30, 2004. These basic financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We did not audit the financial statements of (1) Economic Development – Loan Programs; (2) Maryland State Lottery Agency; (3) Maryland Transportation Authority; (4) Economic Development – Insurance Programs; (5) State Use Industries; (6) certain foundations included in the higher education component unit; (7) Maryland Environmental Service; (8) Maryland Industrial Development Financing Authority; (9) Maryland Food Center Authority; (10) Maryland Local Government Investment Pool; (11) State Retirement and Pension System of Maryland; (12) Maryland Transit Administration Pension Plan; and (13) Deferred Compensation Plan, which represent the percentages of the assets, net assets and revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit		
	Total Assets	Total Net Assets/Fund Balance	Total Revenues or Additions
Business-Type Activities:			
Economic Development – Loan Programs	52.81%	38.46%	8.59%
Maryland State Lottery Agency	3.97	.28	53.67
Maryland Transportation Authority	31.69	38.94	12.54
Economic Development – Insurance Programs	.06	2.11	.21
State Use Industries	.22	.61	1.37
	88.75%	80.40%	76.38%
Major Funds:			
Economic Development – Loan Programs	100.00%	100.00%	100.00%
Maryland State Lottery Agency	100.00%	100.00%	100.00%
Maryland Transportation Authority	100.00%	100.00%	100.00%
Aggregate Discretely Presented Component Units:			
Higher Education	11.17%	17.50%	5.40%
Maryland Environmental Service	1.21	.19	1.93

statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

As described in Note 1, the State has implemented GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14; GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section and Technical Bulletin 2004-1 Tobacco Settlement Recognition and Financial Reporting Entity Issues*; and restated certain capital asset balances as of July 1, 2003.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2004, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of the Financial
Statements in Accordance with *Government Auditing Standards*

The Honorable William Donald Schaefer
Comptroller of Maryland

We have audited the basic financial statements of the State of Maryland (the State) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report on the basic financial statements included disclosures regarding our references to the reports of other auditors. The financial statements of the Ec

reportable conditions that are also considered to be material weaknesses. We consider the reportable condition described above in Finding 2004-2 to be a material weakness.

We noted other matters involving the internal control over financial reporting, which we have reported to the management of the State of Maryland, the University System of Maryland, Baltimore City Community College, St. Mary's College of Maryland, Morgan State University, and Maryland Department of Transportation in separate letters dated January 13, 2005, November 5, 2004, November 12, 2004, December 1, 2004, December 3, 2004, and October 21, 2004, respectively.

Compliance

As part of obtaining reasonable assurance about whether the State's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that

This report is intended solely for the information and use of State management, the U.S. Department of Health and Human Services (the cognizant agency), federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone

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Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable William Donald Schaefer
Controller of Maryland

Compliance

We have audited the compliance of the State of Maryland (the State) with the terms of

Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

We have audited compliance in accordance with auditing standards generally accepted

As described in findings 2004-29, 2004-31, 2004-32, 2004-33 and 2004-37 in the accompanying

schedule of findings and questioned costs, the State did not comply with requirements regarding

complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs that we have audited for the year ended June 30, 2004.

<i>Harrisburg</i>	<i>Lehigh Valley</i>	<i>Philadelphia</i>
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Zelenkofske Axelrod LLC

Internal Control over Compliance

applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the major federal programs that we have audited in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as findings 2004-29 through 2004-43.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants covered

findings 2004-29, 2004-30, 2004-31, 2004-32, 2004-33, 2004-37, 2004-39 and 2004-42 to be material weaknesses.

This report is intended solely for the information and use of State management, the U.S. Department of Health and Human Services (the recipient agency), federal funding agencies

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC

March 14, 2005

Abrams, Foster, Nole & Williams, P.A.

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Report on Compliance and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Honorable William Donald Schaefer
Comptroller of Maryland

Compliance

We have audited the compliance of the State of Maryland (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to certain of its major federal programs for the year ended June 30, 2004. The State's major federal programs that we have audited are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

In our opinion, the State complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs that we have audited for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item 2004-44.

State of Maryland

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
02	<u>Agency for International Development (AID)</u>					
	Contract/Other	02-PO532-0-00-03- 00084-00	\$ -	\$ -	\$ 67,901	\$ 67,901
	Pass-Through University Research Corporation International	02.Unknown	-	-	479,928	479,928
	Total Pass-Through Contract/Other		-	-	547,829	547,829
	Agency for International Development	02.RD	530,048	-	-	530,048
	Pass-Through Supreme Council of Universities, Foreign Relations	02.RD	1,163	-	-	1,163
	Pass-Through United Negro College Fund	02.TELP-UMES	-	-	(92)	(92)
	Pass-Through University Research Corporation International	02.Unknown	3,440,509	-	-	3,440,509
	Total Pass-Through Agency for International Development		3,441,672	-	(92)	3,441,580

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
10	Department of Agriculture (DOA) (continued)					
	Food Stamp Cluster:					
	Food Stamps	10.551	\$ -	\$ -	\$ 283,760,582	\$ 283,760,582
	State Administrative Matching Grants for Food Stamp Program	10.561	-	-	35,516,877	35,516,877
	Total Food Stamp Cluster		-	-	319,277,459	319,277,459
	Child Nutrition Cluster:					
	School Breakfast Program	10.553	-	-	21,873,644	21,873,644
	National School Lunch Program (NSLP)	10.555	-	-	82,694,006	82,694,006
	Special Milk Program for Children	10.556	-	-	475,994	475,994
	Summer Food Service Program for Children	10.559	-	-	4,068,928	4,068,928
	Total Child Nutrition Cluster		-	-	109,112,572	109,112,572
	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)					
	Child and Adult Care Food Program	10.557	-	-	59,530,059	59,530,059
	State Administrative Expenses for Child Nutrition	10.558	-	-	32,399,661	32,399,661
	Nutrition Education and Training Program	10.560	-	-	1,914,915	1,914,915
	Emergency Food Assistance Cluster:					
	Emergency Food Assistance Program (Administrative					
	Co(9 447)60ussis9			684(37.3(rd05)8(9	

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
12	<u>Department of Defense (DOD)</u>					
	Naval Air Warfare Center AD (Pax)	12.Unknown	\$ 8,766	\$ -	\$ -	\$ 8,766
	Contract / Other	12.Unknown	-	-	60,795	60,795
	Contract / Other	12.DCA 100-00D-4008	-	-	1,734,310	1,734,310

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster
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State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development
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State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
20	<u>Department of Transportation (DOT)</u>					
	Contract / Other	20.Unknown	\$ -	\$ -	\$ 584,272	\$ 584,272
	Contract / Other	20.FAA UMD0005	-	-	52,484	52,484
	Contract / Other	20.FAA UMD001	-	-	71,416	71,416
	Airport Improvement Program	20.106	-	-	8,799,013	8,799,013
	Airway Science	20.107	-	-	30,677	30,677
	Highway Planning and Construction Cluster:					

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
43	<u>National Aeronautics and Space Administration (NASA)</u> (continued)					
	Pass-Through Southwest Research Institute	43.RD	\$ 97,964	\$ -	\$ -	\$ 97,964
	Pass-Through Southwest Science Inc.	43.RD	13,171	-	-	13,171
	Pass-Through Space Telescope Science Institute	43.RD	85,459	-	-	85,459
	Pass-Through University of Arizona at Tucson	43.RD	19,708	-	-	19,708
	Pass-Through University of California, Los Angeles	43.RD	41,211	-	-	41,211
	Pass-Through University of California at Berkley -					

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures
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State of Maryland

Schedule of Expenditures of Federal Awards (continued)

Federal Department Program Title	CFDA Number	Research and Development Cluster/5y ch
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State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
81	<u>Department of Energy (DOE) (continued)</u>					
	Other Department of Energy – Research and Development					
	Development	81.RD	\$ 7,251,147	\$ –	\$ –	\$ 7,251,147
	Pass-Through Argonne National Lab	81.RD	10,001	–	–	10,001
	Pass-Through Fermilab	81.RD	(116,942)	–	–	(116,942)
	Pass-Through Lawrence Livermore National Laboratory	81.RD	45,926	–	–	45,926
	Total Pass-Through Other Department of Energy – Research and Development		(61,015)	–	–	(61,015)
	Total Other Department of Energy – Research and Development		7,190,132	–	–	7,190,132
	Total DOE		10,716,694	–	3,967,105	14,683,799
83	<u>Federal Emergency Management Agency (FEMA)</u>					
	Contract / Other	83.EMW2003-GR-0308	–	–	31,494	31,494
	National Fire Academy Educational Program	83.010	–	–	18,959	18,959
	Community Assistance Program: State Support Services Element (CAP-SSSE)	83.105	–	–	2,179	2,179
	Emergency Management – State and Local Assistance	83.534	–	–	45,394	45,394
	First Responder Counter-Terrorism Training Assistance	83.547	–	–	74,145	74,145
	FY'03 State Dam Safety Program	83.550	–	–	8,932	8,932
	FEMA – Research and Development	83.RD	1,828	–	–	1,828
	Total FEMA		1,828	–	181,103	182,931
84	<u>Department of Education (DED)</u>					
	DED Contract / Other: Pass-Through Lower Shore Private Council					
	Adult Education: State Grant Program	84.52-1309382	–	–	67,247	67,247
	Title I Grants to Local Educational Agencies	84.002	–	–	9,119,340	9,119,340
	Migrant Education: State Grant Program	84.010	–	–	140,550,283	140,550,283
	Title I Program for Neglected and Delinquent Children	84.011	–	–	608,324	608,324
	Title I Program for Neglected and Delinquent Children Undergraduate International Studies and foreign Language Programs	84.013	–	–	2,117,437	2,117,437
	Special Education Cluster:					
	Special Education Grants to States	84.016	–	–	27,285	27,285
	Special Education Grants to States: Pass-Through Virginia Department of Education	84.027	–	–	152,186,437	152,186,437
	Special Education: Preschool Grants	84.027	–	–	17,280	17,280
	Total Special Education Cluster	84.173	–	–	5,479,604	5,479,604
	Federal Supplemental Educational Opportunity Grants		–	–	157,683,321	157,683,321
	Federal Family Educational Loans	84.007	–	17,955,942	–	17,955,942
	Federal Work-Study Program	84.032	–	220,226,117	–	220,226,117
	Loan Cancellations	84.033	–	4,009,089	–	4,009,089
	Federal Perkins Loan Program: Federal Capital Contributions	84.037	–	–	26,836	26,836
	Federal Pell Grant Program	84.038	–	74,868,429	–	74,868,429
	Federal Direct Student Loans	84.063	–	59,498,184	–	59,498,184
	TRIO Cluster:	84.268	–	209,827,326	–	209,827,326
	TRIO: Student Support Services	84.042	–	–	1,706,293	1,706,293
	TRIO: Talent Search	84.044	–	–	665,141	665,141
	TRIO: Upward Bound	84.047	–	–	3,823,357	3,823,357
	TRIO: Educational Opportunity Centers	84.066	–	–	265,918	265,918
	TRIO: McNair Post – Baccalaureate Achievement	84.217	–	–	608,356	608,356
	Total TRIO Cluster		–	–	7,069,065	7,069,065

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
89	National Archives and Records Administration					
	National Historical Publications & Records Grant	89.003	\$ -	\$ -	\$ 81,434	\$ 81,434
	National Archives and Records Administration – Research and Development	89.RD	152,753	-	-	152,753
	Total National Archives and Records Administration		152,753	-	81,434	234,187
92	National Council on Disability					
	Adult Elevated Blood Lead Levels & Sur. Prog	92.283	-	-	18,469	18,469
	Total National Council on Disability		-	-	18,469	18,469
93	Department of Health & Human Services (HHS)					
	Contract / Other	93.Unknown	-	-	500,933	500,933
	Contract / Other	93.213-00-0005	-	-	16,164	16,164
	Total Contract / Other		-	-	517,097	517,097
	Public Health and Social Services Emergency Fund	93.003	-	-	9,902,071	9,902,071
	Cooperative Agreements to Improve the Health Status of Minority Populations	93.004	96,873	-	-	96,873
	Special Programs for the Aging: Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	-	-	91,919	91,919
	Special Programs for the Aging: Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals	93.042	-	-	353,268	353,268
	Special Programs for the Aging: Title III, Part D: Disease Prevention and Health Promotion Services	93.043	-	-	367,151	367,151
	Aging Cluster:					
	Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers	93.044	-	-	6,301,398	6,301,398
	Special Programs for the Aging: Title III, Part C: Nutrition Services	93.045	-	-	8,463,467	8,463,467
	Nutrition Services Incentive Program	93.053	-	-	1,924,584	1,924,584
	Total Aging Cluster		-	-	16,689,449	16,689,449
	Special Programs for the Aging: Title IV and Title II: Discretionary Projects	93.048	-	-	408,997	408,997
	Pass-Through Comprehensive Housing Assistance, Inc.	93.048	-	-	31,136	31,136
	Total Special Programs for the Aging: Title IV and Title II: Discretionary Projects		-	-	440,133	440,133
	National Family Caregiver Support Program	93.052	-	-	2,345,902	2,345,902
	Food and Drug Administration: Research	93.103	-	-	265,116	265,116
	Minority International Research Training Grant in the Biomedical and Behavioral Sciences: Pass-Through					

State of Maryland Schedule of Expenditures of Federal Awards

Federal Department Program Title

CFDA Number Research and Development Cluster Student Financial Assistance Cluster Other Expenditures To

Health Promotion and Disease Prevention, Health & Human Services (HHS) Researched State and Community Based Programs

93.136

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Projects for Assistant

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93	Department of Health & Human Services (HHS) (continued)					
	Special Minority Initiatives	93.960	\$ -	\$ -	\$ 109,092	\$ 109,092
	Preventive Health Services: Sexually Transmitted Diseases Control Grants	93.977	-	-	1,611,183	1,611,183
	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988			ts	
	H(o4224(1,)578(-1)7.266(5i)4			in4224(g77664)8.

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
93	<u>Department of Health & Human Services (HHS)</u> (continued)					
	Administration for Children and Families Pass-Through Center for Adoption Support and Education Inc.	93.RD	\$ 510,676	\$ -	\$ -	\$ 510,676
	Total Administration for Children and Families	93.RD	54,133	-	-	54,133
	Centers for Medicare and Medicaid Services: Pass- Through Delmarva Foundation for Medical Care	93.RD	156,206	-	-	156,206
	Office of the Secretary	93.RD	110,854	-	-	110,854
	Substance Abuse and Mental Health Services Administration	93.RD	29,397	-	-	29,397
	Total HHS		188,794,921	13,647,001	3,437,579,606	3,640,021,528
94	<u>Corporation for National and Community Service (CNCS)</u>					
	State Commissions	94.003	-	-	254,605	254,605
	Learn and Serve America: School and Community Based Programs	94.004	-	-	187,679	187,679
	Learn and Serve America: Higher Education	94.005	-	-	93,485	93,485
	Pass-Through University of North Carolina, Chapel Hill	94.005	-	-	9,000	9,000
	Total Pass-Through Learn and Serve America: Higher Education		-	-	102,485	102,485
	AmeriCorps	94.006	-	-	4,307,372	4,307,372
	Planning and Program Development Grants	94.007	-	-	62,893	62,893
	Training and Technical Assistance	94.009	-	-	38,754	38,754
	Foster Grandparent Program	94.011	-	-	633,769	633,769
	Volunteers in Service to America (VISTA)	94.013	-	-	20,562	20,562
	Corporation for National and Community Service	94.RD	83,042	-	-	83,042
	Total CNCS		83,042	-	5,608,119	5,691,161

State of Maryland

Schedule of Expenditures of Federal Awards (continued)

	Federal Department Program Title	CFDA Number	Research and Development Cluster	Student Financial Assistance Cluster	Other Expenditures	Total Expenditures
97	<u>Homeland Security</u> (continued)					
	Emergency Management Performance Grants (EMPG)	97.042	\$ -	\$ -	\$ 2,855,081	\$ 2,855,081
	Assistance to Firefighters Grant (Fire Grants)	97.044	-	-	17,709	17,709
	Pre-Disaster Mitigation (PDM)	97.047	-	-	61,302	61,302
	Federal Assistance to Individuals and Households Other Needs	97.050	-	-	8,108,606	8,108,606
	State and Local All Hazards Emergency Operations Planning	97.051	-	-	1,012,436	1,012,436
	Emergency Operations Centers	97.052	-	-	451	451
	Citizen Corps	97.053	-	-	69,615	69,615
	Community Emergency Response Teams (CERT Program)	97.054	-	-	7,352	7,352
	Department of Homeland Security	97.213-00-005	-	-	977,513	977,513
	Total Homeland Security		-	-	59,145,303	59,145,303
	Total federal expenditures		\$ 429,346,676	\$ 600,032,088	\$ 6,439,909,307	\$ 7,469,288,071

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

1. Single Audit Reporting Entity

The State includes expenditures in its Schedule of Expenditures of Federal Awards for all federal programs administered by the same funds, agencies, boards and commissions, including component units, included in the State's reporting entity used for its basic financial statements including the component unit higher education funds—the University System of Maryland, the Baltimore City Community College, Morgan State University, and St. Mary's College of Maryland except for the Maryland Water Quality Financing Administration of the Maryland Department of the Environment. A separate single audit is conducted for this entity which is part of an enterprise fund of the State of Maryland.

2. Basis of Accounting

Except as otherwise noted, the Schedule of Expenditures of Federal Awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid. Expenditures for CFDA No. 20.205, Highway Planning and Construction Program, are presented on the basis that expenditures are reported to the U.S. Department of Transportation. Accordingly, certain expenditures are recorded when paid and certain other expenditures are recorded when incurred.

The noncash expenditures of \$14,615,000 reported under CFDA No. 10.550, Food Donation, represent the value of food commodity distributions calculated using the U.S. Department of

State of Maryland

Notes to the Schedule of Expenditure

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

5. Other Audit Findings

Other audit reports exist which have also identified findings and questioned costs affecting the State's various federal programs during the year ended June 30, 2004. Because those issues have been previously reported to the affected federal agencies and based on guidance received from the State's cognizant agency, the issues identified in other audit reports have not been repeated in the single audit findings and questioned costs for the year ended June 30, 2004.

The State believes that none of the matters questioned will have a significant impact on the Schedule of Expenditures of Federal Awards.

6. Unemployment Insurance

In accordance with the Department of Labor, Office of Inspector General instructions, the State recorded State Regular Unemployment Compensation (UC) benefits under CFDA No. 17.225 on the Schedule of Expenditures of Federal Awards. The individual state and federal portions are as follows:

State Regular UC benefits	\$ 517,739,129
Federal UC benefits	83,870,265
Federal UC administrative costs	<u>64,096,428</u>
Total benefits	<u><u>\$ 665,705,822</u></u>

7. Federal Mortgage Programs

The State operates several programs which purchase federally guaranteed loans, primarily mortgages, from the originators. As the State has no responsibility for determining eligibility or compliance, these guarantees are not considered federal financial assistance for purposes of the single audit.

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

State of Maryland

Notes to the Schedule of Expenditures of Federal Awards (continued)

8. Loan Programs (continued)

Morgan State University

State of Maryland

State of Maryland

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Section I – Summary of Auditors’ Results

Financial Statement Section

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Reportable conditions(s) identified that are not considered to be material weaknesses? X Yes No

Noncompliance material to financial statements noted? Yes X No

Federal Awards Section

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Reportable conditions(s) identified that are not considered to be material weaknesses? X Yes No

Type of auditors’ report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? X Yes No

Identification of Major Programs:

CFDA Numbers	Name of Federal Program or Cluster	Federal Expenditures
Major programs were determined by Ernst & Young LLP		
Major programs audited by Ernst & Young LLP:		
20.205 and 23.003	Highway Planning and Construction Cluster	\$ 502,693,465
21.000	Joint Tax Rebate Relief Act	90,054,065

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Schedule of Findings and Questioned Costs (continued)

Identification of Major Programs (continued):

CFDA Numbers	Name of Federal Program or Cluster	Federal Expenditures
Major programs audited by Ernst & Young LLP (continued):		
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.925, 93.342, and 93.364	Student Financial Aid Cluster	\$ 600,032,088
93.775, 93.777 and 93.778	Medicaid Cluster	2,461,009,777
Various	Research and Development Cluster	429,346,676

Major programs audited by Zelenkofske Axelrod LLC:

10.553, 10.555, 10.556

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

Finding 2004-1

Comptroller of Maryland – General Accounting Division

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-1 (continued)

Effect:

Due to the manual intensive financial statement preparation process, adequate supervisory reviews may not always occur and as a result, internal controls can be improved over ensuring the accuracy of data utilized in the financial statement preparation process.

Recommendation:

The GAD should analyze their current process for financial statement preparation. The GAD should explore procedures that would assist in the reduction of the intensive manual process of financial statement preparation. GAD should make appropriate inquiries to financial data presented to them prior to recording State entries.

Auditee Response and Corrective Action Plan:

The State of Maryland has a sound framework to prepare accurate financial statements on a timely basis. This is inferred by the timely submission of the CAFR to the Government Finance Officers Association and the State's receipt of the Certificate of Excellence in Financial Reporting for 24 consecutive years. The Constitution of Maryland provides that the Comptroller and Governor are separately elected officials, and while the Constitution gives the Comptroller "general superintendence of the fiscal affairs of the State," independent state agencies, departments and their related financial personnel report to the Governor. Prior recommendations to reorganize and consolidate all agency fiscal functions under the Comptroller have been rejected as unacceptable.

R*STARS was adopted as an agency-based system to satisfy both the required legal level of reporting, and to give the Comptroller the information needed to monitor the State's financial performance. This is information that is not currently available to the Comptroller.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-1 (continued)

The General Accounting Division will review the manual journal entries to make sure they are still applicable. In many instances, we do accrual and reclass entries, and we ask the fiscal officers or the responsible accounting personnel of the agencies to provide the information. Although we may ask questions of the fiscal officers concerning the information provided, we do not believe it is an appropriate use of our time and resources for the General Accounting Division's personnel to validate the information provided.

Since the State is not on a full accrual basis of accounting for budgetary purposes, there are entries (adjustments) which must be made to the State's budgetary accounting records contained in our centralized, statewide accounting system (R*STARS). In addition, the majority of the manual journal entries are simply reclassifications of budgetary information for compliance with GAAP requirements. This is not indicative of a lack of internal controls. The State firmly believes that there are strict controls over the recording of federal funds in R*STARS, even though the statewide accounting is at the appropriation rather than the individual grant level. In addition, the State strongly contends that the State's controls are more than sufficient to provide reasonable assurance that the State is reporting its financial activity without material misstatement.

While we appreciate the auditors' comments, we find the stated effect vague and lacking in specificity resulting in a questionable recommendation.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2

University System of Maryland Financial Reporting and Analysis

Lack of Integrated Financial Management Systems

The System and the various institutions each utilize an accounting system, including various subsidiary ledgers and applications that provide transactional and account balance information, to manage their day-to-day financial operations. The information from the accounting system serves as the basis for the current process of preparing financial statements. In general, the accounting system has been implemented to satisfy budgetary accountability requirements established by the State of Maryland, as well as provide real-time information necessary to satisfy the principal operational objectives: education, public service, and research.

The accounting system, as currently implemented, does not readily provide the information required to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP). A largely manual, and highly distributed, process is required to convert the information recorded in the institutions' accounting systems from the budgetary basis to that required to present financial statements on an accrual basis of accounting. In addition to the effort required to convert the information recorded in the accounting systems to an accrual basis of accounting, information associated with the System's debt financing program, the investment

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

- Generate the financial statements off of the accounting system.
- Perform the financial statement close process on a monthly or quarterly basis rather than once a year.

University System of Maryland Response

The System has embarked on a process that will accomplish many of the objectives underlying the recommendations of the auditors. This plan, which was formulated in response to similar concerns raised during the FY 03 financial statement audit process, consists of two primary

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

The Board of Regents Audit Committee recently has expressed a strong interest in preparing interim financial statements. The System is currently planning the preparation of interim, accrual-based financial statements for the six months ended December 31, 2005. These initial interim financial statements may not include adjustments for the changes in certain balance sheet items such as accrued annual leave, which changes in minor increments from year to year, or the liability for accrued workers' compensation, which results from an actuarial valuation of a state-sponsored fund, but will be accrual-based in all other respects that are cost-effective for internal-use financial statements.

Analysis and Reporting

Although the System continues to enhance processes of reconciliation and analysis, we found that certain reconciliation processes were not adequately performed to ensure that differences were properly identified, researched, and resolved in a timely manner and that account balances were complete and accurate.

The following provides examples we noted that need enhanced periodic reconciliation and analysis procedures:

University of Maryland University College (UMUC):

- During our testing of deferred revenue, we noted that UMUC's calculation for FY 03 and FY 04 was incorrect due to human error. In reviewing the calculation of summer deferred revenue, we noted that the institution did not change the cell formulas from the prior year; therefore, the calculation was incorrect. An audit adjustment of approximately \$2.6 million to correctly state deferred revenue was proposed and made. The impact on FY 03 was approximately \$3 million.
- It is part of UMUC's procedures to reconcile third-party accounts receivable on a monthly basis. We noted that as of October 13, 2004, the June 2004 third-party accounts receivable reconciliation had not been prepared. It had only been prepared through April 2004.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

University of Maryland Baltimore (UMB):

- Spreadsheets are used to keep track of the capital assets and calculate depreciation expense. During the audit, it was found that one of the cells that contains the year needed to be incremented each year and was not, resulting in the miscalculation of depreciation expense. In addition, infrastructure had never been depreciated; it was capitalized but not depreciated. The adjustment to correct the July 1, 2002 fixed asset figure was \$14,446,069. An adjustment was made to fixed assets and the net asset category, invested in capital assets, as of July 1, 2002.
- During the audit, it was noted that approximately \$42m 0 TT12 1preof49 in the m79-1.7(sc0003r T

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

The System and its institutions need to perform more effective periodic reviews and analyses of their general ledger accounts and financial statements.

We encourage the System and the institutions to make sure that closing procedures are performed accurately and reconciliations of accounts and balances are being done, differences are being accounted for in a timely manner, reconciliations are actually being done to provide value to management and not just as part of the GAAP conversion process, and there is evidence of reviewer and preparer sign-offs.

University of Maryland University College Response

The UMUC Office of Finance has recently been reorganized under the leadership of a new management team. Strong support of upper management has allowed for the additional hiring of many key positions and the establishment of new teams tasked with responsibilities involving reconciliation and PeopleSoft support. The overall skill level has increased considerably as the new team members include five CPAs along with other highly skilled accounting professionals. The new management team will be assigning specifi

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

The Office of Finance's new management team is undertaking a thorough review of all accounts in the general ledger with an eye towards improving the reconciliation processes. All critical areas identified will be assigned to accountants within the Office of Finance who will be charged with the responsibility to reconcile these accounts on a monthly basis. Management review and sign off will be required.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

During our testing of UMUC’s intercampus contracts accounts receivable, we noted that 4 out of 10 sample items indicated that a cash receipt had been received; however, the accounts receivable balance was still remaining. The cash receipts were received in 2002 and 2003.

During our testing of UMUC’s third-party accounts receivable, we noted that for 1 out of 18 sample items, the balance per the detail was \$1,506; however, the amount according to the general ledger was \$5,705, a difference of \$4,199.

- Payroll—During our testing of payroll, we noted the following issue:

During our payroll test of controls at UMUC, we noted that for 1 out of 25 sample items, an employee was paid twice.

University of Maryland University College Response

UMUC requests more detail on the three findings regarding reconciliation of areas within accounts receivable. These areas will be subject to the above-mentioned comprehensive review of accounts. Additional detail will assist us in responding and addressing the concerns raised.

The Payroll process for payment of contractual employees will be reviewed by UMUC. This is an area that management is aware has risk of error. In the coming months, the responsibility for the accuracy of these payments will be moved from

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

- **Accrued Vacation**—During our testing of accrued vacation, we noted that some institutions keep track of their employees' vacation in different ways. For example, at UMB, we noted the following issue:

We obtained the detail of accrued vacation by employee showing accrued leave balances as of June 30, 2004. We were unable to pick a sample of employees in order to validate their leave balance as of

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings (continued)

Finding 2004-2 (continued)

- Evaluate processes to identify opportunities to eliminate rework and improve processing times as well as the quality of the information.
- Establish key cutoff dates for determining when final reports can be issued.

University System of Maryland Response

The System is currently planning discussions with each institution to review the FY 04 financial statement preparation process and begin planning for the FY 05 financial statement preparation process. The minimum standard of documentation for financial statement elements, particularly the balance sheet items, will be a focus of the annual System-wide planning meeting, usually held in early June.

With respect to setting realistic internal deadlines, the System is constrained by the need of the State to incorporate the System's financial statements into its financial statements, eliminating any flexibility with respect to the date that the financial statements must be completed. Moving the date forward for when institutions are required to submit institutional financial information to the System Office often forces compromises in documentation and accuracy in the current financial statement preparation environment. The most plausible improvement will come once institutions have all begun to record all types of financial activity and balances as they occur, rather than waiting until year-end. The effort associated with recording activity such as debt-financed transactions or endowment fund activity is currently underway.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs

Finding 2004-3 (Reissued)

State Treasurer's Office

CFDA No. 10.555 – National School Lunch Program (NSLP)

CFDA No. 10.558 – Child and Adult Care Food Program

CFDA No. 10.561 – State Administrative Matching Grants for Food Stamp Program

CFDA No. 17.225 – Unemployment Insurance

CFDA No. 20.500 – Federal Transit: Capital Investment Grants

CFDA No. 20.507 – Federal Transit: Formula Grants

CFDA No. 84.010 – Title I Grants to Local Education Agencies

CFDA No. 84.027 – Special Education: Grants to States

CFDA No. 84.126 – Rehabilitation Services: Vocational Rehabilitation Grants to States

CFDA No. 93.558 – Temporary Assistance to Needy Families

CFDA No. 93.563 – Child Support Enforcement

CFDA No. 93.568 – Low-Income Home Energy Assistance (LIHEAP)

CFDA No. 93.658 – Foster Care: Title IV-E

CFDA No. 93.767 – State Children's Insurance Program (MCHIP)

CFDA No. 93.778 – Medical Assistance Program (Medicaid)

CFDA No. 93.959 – Block Grants for Prevention and Treatment of Substance Abuse

The State Treasurer's Office did not maintain documentation supporting two check clearance patterns referenced in the Cash Management Improvement Act Agreement between the State Treasurer of Maryland and the Secretary of the Treasury – United States Department of Treasury (CMIA Agreement).

Condition:

The State Treasurer of Maryland has entered into the CMIA Agreement with the U.S. Department of the Treasury in order to comply with the provisions of the Cash Management Improvement Act of 1990 (CMIA). The Agreement took effect on July 1, 2002 and remains in effect until June 30, 2007.

The State Treasurer of Maryland, per Section 7.2 of the CMIA Agreement, is responsible for developing the State's clearance patterns for vendor payments and payroll. 31 CFR 205.20 and Sections 7.0 through 7.10 of the CMIA Agreement govern the methodology and standards used to develop these clearance patterns.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-3 (Reissued) (continued)

The components that were used to develop the average clearance-vendor pattern include transit time, Comptroller of Maryland's General Accounting Division (GAD) processing time and check clearance time. The component that was used to develop the average clearance-payroll pattern was the check clearance time. The Fiscal Year 2003 Single Audit Report Finding 2003-3 addressed the issue that the documentation provided by the State Treasurer of Maryland did not support the development of any of the time components used in the development of the average clearance vendor and average clearance payroll check clearance patterns as noted in the CMIA Agreement. The State Treasurer's Office did not perform any follow up on this 2003-3 finding.

Criteria:

31 CFR 205.20 states in part:

“States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. A State must ensure that clearance patterns meet the following standards:

- (a) A clearance pattern must be auditable.”

Cause:

Due to staff turnover, the State Treasurer's Office was unable to supply proper documentation supporting the basis for development of the check clearance time components for the average clearance-vendor and average clearance-payroll patterns in the CMIA Agreement.

Effect:

The State is not in compliance with the federal regulations relative to maintaining auditable evidence supporting the check clearance patterns denoted in the CMIA Agreement and noted in the finding. We cannot determine if the State Treasurer of Maryland complied with the appropriate standards for development of these check clearance patterns per the federal regulations and the terms of the CMIA Agreement.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-3 (Reissued) (continued)

Recommendation:

We recommend that the State Treasurer's Office maintain the documentation supporting the time components that are used in the development of the average clearance-vendor and average clearance-payroll patterns in the CMIA Agreement.

Auditee Response and Corrective Action Plan:

On March 4, 2004, the Office of the State Treasurer completed development and recertification related to Average Clearance Vendor and Average Clearance Payroll check clearance patterns. We have replaced Average Clearance Vendor (9 Day Pattern) and Average Clearance Payroll (1 Day Pattern) with Dollar Weighted Clearance Day Vendor (8 Day Pattern) and Dollar Weighted Clearance Day Payroll (1 Day Pattern) accordingly. We developed the patterns in accordance with a method approved by Financial Management Service (FMS), U.S. Department of the Treasury, including auditable calculations and maintenance of all supporting documentation.

The Office will work with the appropriate State agencies to start using the new check clearance patterns with transactions beginning on March 28, 2005.

The State executed a multi-year Treasury-State Agreement in October 2004 that runs through June 30, 2009. Amendments to the Treasury-State Agreement resulting from the recertification procedures will be made on a timely basis.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-4

Student Financial Aid Cluster

CFDA No. 84.268 – Federal Direct Student Loans

Monthly reconciliations of the Direct Loan Student Account Statement to Morgan State University’s financial records are not performed.

Condition:

Each institution must report all loan disbursements to the Direct Loan Servicing Center via the Common Origination and Disbursement (COD) system within 30 days of disbursement. Every month the institution receives from COD a Student Account Statement (SAS) data file that consists of a Cash Summary, Cash Detail, and Loan Detail records. The institution is required to reconcile these files to the institution’s financial records. We noted that there is no audit evidence that Morgan State University (MSU) is performing monthly reconciliations of the Direct Loan Student Account Statement data files to its financial records. In addition, MSU personnel are not maintaining the monthly reconciliations of the SAS files. This condition was reported in MSU’s single audit report for the fiscal year ended June 30, 2001, Finding 2001-3.

Criteria:

34 CFR 685.102 (b) states, “the school performs the following functions: creates a loan origination record, transmits the record to the Servicer, prepares the promissory note, obtains a completed and signed promissory note from the borrower, transmits the promissory note to the Servicer, receives the funds electronically, disburses a loan to a borrower, creates a disbursement record, transmits the disbursement record to the Servicer, and reconciles on a monthly basis.”

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.”

Cause:

MSU does not maintain the monthly reconciliati

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-4 (continued)

Effect:

Without evidence that this reconciliation is being performed on a monthly basis, MSU cannot determine on a timely basis whether the amount of direct loans awarded by MSU balances with the direct loans accepted or rejected by COD.

Recommendation:

We recommend that MSU perform the monthly reconciliations of the SAS files and maintain the documentation to verify that the reconciliation was performed.

Auditee Response and Corrective Action Plan:

The University does prepare reconciliation reports that are cumulative in nature. Unfortunately, the procedures did not require the department to retain the copy of the preceding reconciliation report. Effective March 2005, the University will establish and maintain a file of all monthly reconciliation reports to better document the reconciliation process.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-5

Student Financial Aid Cluster

CFDA No. 84.268 – Federal Direct Student Loans

Morgan State University lacks effective internal controls over notifying the National Student Loan Data System of changes in student’s status in a timely and accurate manner.

Condition:

We reviewed the student status change for 25 students and noted that Morgan State University (MSU) did not process the change for 24 of the 25 tested in a timely and accurate manner. In addition, we noted that the effective date of the student change in MSU’s Student Information System (SIS) did not agree with the effective date in the National Student Loan Data System (NSLDS) for 8 of the 25 students tested. Timely reporting of student status changes impacts the timeliness of establishing a repayment plan for the loan. This condition was reported in MSU’s single audit report for the fiscal year ended June 30, 2001, finding number 2001-4.

Criteria:

34 CFR 685.309 2(b) states, “Student status confirmation reports. A school shall – (1) Upon receipt of a student status confirmation report from the Secretary, complete and return the report to the Secretary within 30 days of receipt; and (2) Unless it expects to submit its next student status confirmation report to the Secretary within the next 60 days, notify the Secretary within 30 days if it discovers that a Direct Loan has been made to or on behalf of a student who – (i) Enrolled at a school but has ceased to be enro

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-5 (continued)

Effect:

The student change is not reported in a timely or accurate manner. Additionally, the direct loan repayment process cannot be established when a student withdraws or drops out during the period.

Recommendation:

We recommend that MSU establish internal control procedures to review the student status confirmation reports and report corrections to NSLDS in a timely and accurate manner. In addition, we recommend that MSU establish procedures to review the error report to ensure that all corrections are made and the student status confirmation report file is sent back to NSLDS in a timely manner.

Auditee Response and Corrective Action Plan:

The University has implemented procedures that provide for a timelier review of the confirmation reports as well as timelier correction of noted errors. We expect that the implementation of the new student information system during fiscal year 2006 will further enhance the University's ability to report similar information to internal and external parties in a timely and accurate manner.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-6

Financial Aid Cluster

CFDA No. 84.063 – Student – Federal Pell Grant Program

Pell Payment Data (Originations and Disbursements) are not being submitted in the required 30-day timeframe after a Pell payment has been made by Morgan State University.

Condition:

Institutions are required to submit Pell Payment Data through the Common Origination and Disbursement (COD) system to the U.S. Department of Education (DOE) within 30 calendar days after the institutions make a payment or are aware of a need to change a previously reported student payment. The Origination record can be sent in advance of the disbursement if the institution believes the student will be eligible for payment. The disbursement record reports the actual disbursement amount and date. Once DOE receives and processes the origination and disbursement records, DOE sends an acknowledgment to the institution indicating the record was accepted, accepted with corrections, or rejected.

We noted that in 7 of the 24 students reviewed Morgan State University (MSU) did not submit the Pell Payment Data Reports in the required 30-day timeframe after a Pell payment had been disbursed. We also noted that in 6 of those 7 student cases, the Pell data was submitted 50 to 70 days after the disbursement was made. This is not considered timely submission of these reports. This condition was reported in MSU's single audit report for the fiscal year ended June 30, 2001, finding number 2001-5.

Criteria:

34 CFR section 690.83 requires the following: "Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data."

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs."

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-6 (continued)

Cause:

MSU lacked adequate internal controls to ensure Pell Payment Data reports were submitted to DOE in a timely manner.

Effect:

MSU was not submitting the Pell Payment Data Reports in the required timeframe.

Recommendation:

We recommend that MSU establish internal controls to ensure that the required Pell Payment Data Reports in the required timeframe in order to be in compliance with the regulations.

Auditee Response and Corrective Action Plan:

The University agrees to improve the timeliness of the Pell Payment Data Report submissions. In this regard, the University is in the process of implementing a new student information system that will significantly enhance the University's ability to report information in a timely and accurate manner.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-7

Student Financial Aid Cluster

CFDA No. 84.007 – Federal Supplemental Educational Opportunity Grants

CFDA No. 84.033 – Federal Work Study Program

CFDA No. 84.063 – Federal Pell Grant Program

CFDA No. 84.268 – Federal Direct Student Loans

Internal controls over the cash management process at Morgan State University are weak.

Condition:

We noted that Morgan State University’s (MSU) Associate Director for Student Financial Aid calculates the draw down amount, prepares the request, and forwards it to the restricted fund accounting office for processing. There is no management review of the drawdown calculation for accuracy or approval of these requests prior to requesting reimbursement from the U.S. Department of Education (DOE).

In addition, we reviewed 9 draw down requests totaling \$29 million and noted that MSU is not drawing down federal funds in accordance with the provisions of 31 CFR section 205 Subpart B. The CFR requires that entities minimize the time between the disbursement and reimbursement of federal funds. The following table shows that reimbursement of financial aid funds was requested about 2-3 months after the funds were disbursed to the students.

SFA Program	Amount Expended	Expenditure Date	Draw Down Amount	Draw Down Request Date	Date Federal Funds Were Deposited
Direct	\$ 9,655,906	08/26/03-10/30/03	\$ 8,655,498	10/30/03	10/30/03
FWS	84,820	07/01/03-10/30/03	82,161	11/06/03	11/07/03
SEOG	399,339	08/26/03-10/30/03	398,369	11/06/03	11/07/03
Pell	3,341,690	08/26/03-10/30/03	3,057,093	11/06/03	11/07/03
Direct	1,849,713	11/06/03-12/10/03	1,671,458	12/12/03	12/15/03
SEOG	77,915	11/06/03-12/10/03	70,996	12/12/03	12/15/03
Pell	598,077	11/06/03-12/10/03	538,269	12/12/03	12/15/03
FWS	155,341	11/01/03-02/16/04	44,921	02/17/04	02/18/04
Direct	9,238,014	12/18/03-03/04/04	8,323,280	03/10/04	03/11/04
SEOG	591,352	12/18/03-03/04/04	538,417	03/10/04	03/11/04
Pell	3,641,547	12/18/03-03/04/04	3,275,502	03/10/04	03/11/04
Direct	2,894,376	03/11/04-04/22/04	2,260,782	04/23/04	04/26/04

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Schedule of Findings and Questioned Costs (continued)

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Schedule of Findings and Qu

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Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-8

Student Financial Aid Cluster

CFDA No. 84.033 – Federal Work Study

Morgan State University did not effectively perform reconciliations for payroll expenditures incurred for the Federal Work Study program.

Condition:

The Student Financial Office did not reconcile the payroll expenditures incurred for the Federal Work Study program that were recorded in the Financial Record System (FRS), and in the Student Information System (SIS). The FRS is Morgan State University's (MSU) accounting records and the SIS is the student financial aid system used to account for expenditures and revenues.

We noted that payroll expenditures recorded in FRS totaled \$481,325 compared with payroll expenditures recorded in SIS of \$592,355, a difference of 111,030 or 23%. The differences noted in each case were not adequately investigated so that appropriate adjustments could be made to MSU's financial records.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on each of its Federal programs."

Cause:

MSU did not adequately reconcile the payroll expenditures recorded in FRS to those recorded in the SIS for the Federal Work Study program.

Effect:

The lack of adequate internal controls over the reconciliation of Federal Work Study expenditures reported to the U.S. Department of Education to the institution's accounting records resulted in questioned costs of \$111,030.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-9

Student Financial Aid Cluster

CFDA No. 84.063 – Federal Pell Grant Program

CFDA No. 84.268 – Federal Direct Student Loans

Title IV refunds were not returned by Morgan State University to the U.S. Department of Education in accordance with federal regulations.

Condition:

We reviewed the refund calculation for 25 students and could not obtain audit evidence to verify that the funds were returned within the 30 day timeframe for 3 of those students. We also noted for 1 student that we were unable to trace the total refund amount of \$2,627 to the Financial Record System (FRS) to ensure the calculated refund was properly returned to the U.S. Department of Education (DOE). In addition, we noted that there is no supervisory review of the Title IV calculated refund amount or on the return of those unearned funds to DOE.

Criteria:

34 CFR 668.22 (j) states, “Timeframe for the return to Title IV funds. (1) An institution must return the amount of Title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 30 days after the date of the institution’s determination that the student withdrew as defined in paragraph (1) (3) of this section.”

OMB Circular A-133 subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal Programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provision of contracts or grant agreements that could have a material effect on each of its federal programs.”

Cause:

Morgan State University’s (MSU) internal control procedures over the return of Title IV funds are not adequate to comply with federal guidelines.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-9 (continued)

Effect:

Without proper documentation and effective internal controls, there is no assurance that the DOE is receiving Title IV refunds once the students withdraw from the institution. Additionally, the

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-10

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-10 (continued)

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provision of contracts or grant agreements that could have a material effect on each of its federal programs.”

Cause:

University of Maryland, University College—UMUC does not reconcile the cash receipts portion of the SAS file because the file is not sent to the accounting office that maintains the FAS.

Towson University—TU personnel explained that they did not have the time to reconcile the SAS files due to the implementation of the PeopleSoft system.

Effect:

University of Maryland, University College—UMUC does not have adequate internal controls to ensure that cash receipts recorded in FAS are properly being applied and recorded in SAS.

Towson University—TU cannot determine on a timely basis whether the amount of direct loans awarded by TU balances with the direct loans accepted or rejected by COD.

Recommendation:

University of Maryland, University College—We recommend that UMUC establish internal controls and procedures to ensure that the monthly reconciliations of the SAS files include the cash receipts portion. Additionally, UMUC should maintain the documentation used to perform the monthly reconciliations.

Towson University—We recommend that TU perform the monthly reconciliations of the SAS files as required by federal regulation.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-10 (continued)

Auditee Response and Corrective Action Plan:

University of Maryland, University College—In relation to Code of Federal Regulations Title 34 Part 685.102(b), the University feels that we are in compliance with the reconciliation requirements. The Financial Aid Office performs a cumulative monthly reconciliation of all Direct Loan disbursements utilizing the SAS file.

However, the University concurs with the recommendation that monthly reconciliations of the cash receipts portion of the SAS file be performed. The Financial Aid Office will work with the Office of Finance to finalize procedures that will allow for the sharing of the SAS file and related reconciliation to our financial records.

Towson University—The timely adherence to the reconciliation issue was directly associated with the PeopleSoft implementation process, as well as the Department of Education's migration to the COD Common Record in XML format for the 2003-2004 award year. These issues resulted in a need to prioritize procedures in the financial aid delivery process. Problems related to reporting Direct Loan originations, changes and disbursements were corrected on August 23, 2004 and beyond. The monthly reconciliation process of the SAS files has been implemented for the 2004-2005 award year.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-11

Student Financial Aid Cluster

CFDA No. 84.032 – Federal Family Education Loans –University of Maryland, Baltimore

The University of Maryland, Baltimore lacked effective internal controls over notifying the National Student Loan Data System of changes in student’s status in a timely and accurate manner.

Condition:

We reviewed Tciewh[T5t1.4Loan D/TT6II()]TJ92 Tcil(i226()]TJ92 Tc0.309)]TJ92 iThi.

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State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-11 (continued)

Effect:

The student change is not reported in a timely or accurate manner. Additionally, the repayment process cannot be established when a student withdraws or drops out during the period.

Recommendation:

We recommend that the UMB establish internal control procedures to review the student status confirmation reports and report corrections to the NSLDS in a timely and accurate manner.

Auditee Response and Corrective Action Plan:

The University disagrees with the finding because the University does not report directly to NSLDS. The University submits to the Department of Education notification of a change in a student's enrollment status every 60 days. However, there is a time lag from the time the Department of Education receives the information and when it is downloaded to the NSLDS database. The University does not manually update the NSLDS database because the information would be overridden by the automated report updates. To prevent possible conflicting data, the

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-12 (continued)

Auditee Response and Corrective Action Plan:

The University concurs with the recommendation that the University complies with the Code of Federal Regulations and accurately computes the ICC match amount for the Federal Perkins Loan program. The additional \$5,000 match for fiscal year 2004 has been matched in the current fiscal year. The new Office of Finance employee now charged with posting the matching funds is aware of the 33% match requirement and has been properly trained.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-13

Student Financial Aid Cluster

CFDA No. 84.268 – Federal Direct Student Loans – University of Maryland, University College

CFDA No. 84.033 – Federal Work Study – University of Maryland, Baltimore

Internal controls over the cash management process at the University of Maryland, University College and University of Maryland, Baltimore, can be enhanced.

Condition:

University of Maryland, University College—The drawdown of student financial aid funds is prepared and processed by the Financial Services Office. Personnel responsible for drawing down federal funds review the amount posted in the Financial Accounting System (FAS) by program (e.g., Federal Work Study, Supplemental Opportunity Education Grant) and enter that amount in the U.S. Department of Education’s (DOE) Grant Administration and Payment System. We reviewed 10 drawdown requests totaling \$53.7 million and noted that there is no management review of the drawdown calculation for accuracy or approval of these requests prior to requesting reimbursement from DOE.

University of Maryland, Baltimore—We noted that UMB incurred FWS expenditures during fiscal year 2004 and had not requested reimburse

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-14

Student Financial Aid Cluster

CFDA No. 84.038 – Federal Perkins Loans (FPL) – Federal Capital Contributions – University of Maryland, University College and University of Maryland, College Park

The amounts shown on the Fiscal Operations Report and Application to Participate were not supported by the University of Maryland, University College and University of Maryland, College Park's financial records.

Condition:

The Fiscal Operations Report and Application to Participate (FISAP) is submitted to the U.S. Department of Education (DOE) by October 1, 2004 for the fiscal year ended June 30, 2004. The Fiscal Operations Report portion of the report is used to report the institution's student financial aid expenditures in the previous award year and the Application to Participate portion is used to apply for funds for the next award year.

University of Maryland, University College—During our testing of Part III – Federal Perkins Loan Program, Section A – Fiscal Report (cumulative) as of June 30, 2004, we noted that cash on-hand and in depository as of June 30, 2004 totaled \$167,372 was unsupported. This amount was neither supported by the University of Maryland, University College's (UMUC) records nor was the amount reconciled to UMUC's cash reported with the State of Maryland Treasurer's Office. UMUC was unable to provide support for the cash-on-hand amount resulting in questioned costs of \$167,372.

University of Maryland, College Park—UMCP does not reconcile the Perkins amounts recorded between the FRS and the SAM system. UMCP takes the amount from SAM for each type of student and divides it by the total amount recorded in SAM to obtain the percent for each type of student. This percent is then multiplied by the difference between the amount in FRS and SAM which amounted to \$105,097 during fiscal year 2004 resulting in questioned costs of \$105,097. The prorated amount is then reported on the FISAP report that is submitted to DOE.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-14 (continued)

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on each of its federal programs.”

Cause:

University of Maryland, University College—UMUC did not attempt to reconcile nor did it attempt to confirm the cash balance on hand at June 30, 2004 with the State of Maryland Treasurer’s Office.

University of Maryland, College Park—UMCP did not reconcile the FRS and SAM system to ensure the Perkins amounts reported in the FISAP report were properly supported.

Effect:

The amounts reported in the FISAP report are not supported by UMUC’s nor UMCP’s financial records resulting in questioned costs of \$272,469.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-14 (continued)

Auditee Response and Corrective Action Plan:

University of Maryland, University College—The University concurs with the finding that cash in the FISAP Perkins loan records was not properly supported by the University’s financial records. The University is working with the Department of Education to adjust the FISAP records appropriately. The new management team has reviewed the FISAP submission process and will review Perkins FISAP data annually, prior to submission, to verify that it reconciles to financial records.

University of Maryland, College Park—The University disagrees with this finding. The auditors seem to have confused the disbursement of late summer awards of \$105,097 with a perceived discrepancy between FISAP, SAM and FRS in “Perkins Loans Advanced to Students.” The FISAP figure of \$1,997,287 agrees precisely with the University Student Loan System administered by the Office of the Bursar. That amount is reconciled to the balance of “[Perkins] Funds Advanced to Students” in the FRS Accounting System. That reconciliation was made available to the auditors during their field work.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-15

Student Financial Aid Cluster

CFDA No. 84.063 – Federal Pell Grant Program – University of Maryland, University College, University of Maryland, College Park, and Towson University

CFDA No. 84.268 – Federal Direct Student Loans – University of Maryland, University College and Towson University

CFDA No. 84.032 – Federal Family Education Loans – University of Maryland, College Park

Title IV refunds were not returned by the University of Maryland, University College, University of Maryland, College Park, and Towson University to the U.S. Department of Education in accordance with federal regulations.

Condition:

University of Maryland, University College—We reviewed the refund calculation for 20 students and noted that the University of Maryland, University College (UMUC) did not return unearned financial aid for five of those students in the amount of \$11,425 in the aggregate within the 30-day timeframe. In addition, we noted that the UMUC did not calculate a refund for one student even though the student had withdrawn. The student withdrew on April 18, 2004 but the UMUC did not calculate the refund of \$4,101 until September 17, 2004 when it was brought to their attention during the audit. Furthermore, we noted that there is no supervisory review of the Title IV calculated refund amount or of the return of those unearned funds to the U.S. Department of Education (DOE).

University of Maryland, College Park

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-15 (continued)

Criteria:

34 CFR 668.22(j) states, “Timeframe for the return to Title IV funds: (1) An institution must return the amount of Title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 30 days after the date of the institution’s determination that the student withdrew as defined in paragraph (1)(3) of this section.”

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.”

Cause:

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State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-15 (continued)

Recommendation:

University of Maryland, University College—We recommend that UMUC implement internal control procedures to adequately ensure that Title IV refunds are properly calculated and returned within the required 30-day timeframe.

We recommend that UMUC establish and document internal control procedures to review and approve these types of transactions prior to submitting to DOE to ensure federal regulations are being followed. The review and approval of these transactions should be documented.

University of Maryland, College Park—We recommend that UMCP implement internal control procedures to adequately ensure that Title IV refunds are returned within the required 30-day timeframe.

Towson University—We recommend that TU implement internal control procedures to adequately ensure that Title IV refunds are properly calculated and returned within the required 30-day timeframe.

Auditee Response and Corrective Action Plan:

University of Maryland, University College—The University concurs with the recommendation that the University implement internal control procedures to ensure the proper calculation and timely return of Title IV refunds. The Financial Aid Office has increased its manager oversight of the Return of Title IV calculations by instituting a formal monthly audit of the process to ensure that all calculations are performed within 30 days of the date of determination that a student has withdrawn. This audit includes a review of the academic record and the student account, which reflects the date of any adjustments. In addition, the implementation of an integrated student administration computer system (PeopleSoft) at the University for Fall 2005 will integrate the return of funds process within one system, while the

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-15 (continued)

University of Maryland, College Park—The University agrees that 10 Title IV refunds in the amount of \$19,676 were returned several weeks beyond the 30-day time limit. Staffing changes have been made to assure a more timely process.

Towson University—Reports of students who have withdrawn from all classes are now delivered electronically from Enrollment Services to the Financial Aid Office three times per week. This finding was directly related to PeopleSoft's inability to accurately calculate the number of days in a given academic term. At this time we are using a manual process to verify the percentage of days attended in order to correctly calculate the total amount of funds that must be returned to the Federal government. PeopleSoft plans to send a software correction

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-16

Student Financial Aid Cluster

CFDA No. 84.007 – Federal Supplemental Educational Opportunity Grants – University of Maryland, Baltimore

CFDA No. 84.032 – Federal Family Education Loans – University of Maryland, Baltimore

CFDA No. 84.033 – Federal Work Study Program – University of Maryland, Baltimore

CFDA No. 84.038 – Federal Perkins Loans (FPL) – Federal Capital Contributions – University of Maryland, Baltimore

CFDA No. 84.063 – Federal Pell Grant Program – University of Maryland, Baltimore

CFDA No. 93.342 – Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students – University of Maryland, Baltimore

CFDA No. 93.364 – Nursing Student Loans – University of Maryland, Baltimore

Student Financial Aid funds were not disbursed in accordance with federal regulations by the University of Maryland, Baltimore.

Condition:

Federal regulations state that an institution make a disbursement of Title IV Higher Education Act (HEA) program funds on the date that the institution credits a student account at the institution or pays a student or parent directly with funds received from the secretary, funds received from a lender under the Federal Family Education Loan (FFEL) program, or institutional funds used in advance of receiving Title IV HEFA program funds.

We reviewed the disbursements for 25 students and noted that for 19 of those students, the University of Maryland, Baltimore (UMB) disbursed campus-based financial aid funds before the required 10-day timeframe.

Criteria:

34 CFR 668.164(f)(1) states, “If a student is enrolled in a credit hour education program that is offered in semester, trimester, or quarter academic terms, the earliest an institution may disburse Title IV HEA program funds to a student or parent for any payment period is 10 days before the first day of classes for a payment period. There are two exceptions to this rule. First, institutions may not disburse or deliver the first installment of FFEL or Direct Loans to first-year undergraduates who are first-time borrowers until 30 days after the student’s first day of classes. The second exception applies to a student who is enrolled in a clock hour education program or a credit hour program that is not offered in standard academic term.”

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-16 (continued)

Cause:

UMB did not have adequate internal controls in place to ensure payments were issued in accordance with federal regulations.

Effect:

UMB is not in compliance with federal regulations concerning the disbursement of Title IV HEA program funds.

Recommendation:

We recommend that UMB adhere to federal regulations and disburse Title IV HEA program funds in accordance with established timeframes.

Auditee Response and Corrective Action Plan:

The University agrees with the recommendation. The Financial Aid Office has reviewed the current process. It was determined that because of the various program class start dates, it was difficult to standardize the dates for application of payment of the campus based Title IV funds to student accounts. However, to ensure that the University remains in compliance with federal regulations, the Financial Aid Office has made changes to current processes so that a student's account will not be credited or funds disbursed more than ten days prior to the beginning of classes. These changes have been made and implemented for award year 2005-2006.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-17

Student Financial Aid Cluster

CFDA No. 84.063 – Federal Pell Grant Programs – University of Maryland, College Park and Towson University

Pell Payment Data (Originations and Disbursements) are not being submitted in the required 30-day timeframe after a Pell payment has been made by the University of Maryland, College Park and Towson University.

Condition:

Institutions are required to submit Pell Payments Data through the Common Origination and Disbursement (COD) system to the U.S. Department of Education (DOE) within 30 calendar days after the institutions make a payment or are aware of a need to change a previously reported student payment. The origination record can be sent in advance of the disbursement if the institution believes the student will be eligible for payment. The disbursement record reports the actual disbursement amount and date. Once DOE receives and processes the origination and disbursement records, DOE sends the acknowledgement to the institution indicating the record was accepted, accepted with corrections, or rejected.

University of Maryland, College Park—We reviewed 25 students and noted that the University of Maryland, College Park, (UMCP), reported the Pell disbursements for 17 of 25 students between 38 and 64 days after the disbursement was made. This is not considered timely submission of this data.

Towson University—We reviewed the Pell Payment Data in the COD system with the data in the PeopleSoft system. For the Fall 2003 semester, we reviewed 25 students and noted that Towson University (TU) reported the Pell disbursement for all 25 students between 64 and 294 days after the disbursement was made. In addition, we noted that for the Spring 2004 semester, TU reported one of the 25 students 172 days after the disbursement of Pell funds. This is not considered timely submission of these reports.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-17 (continued)

Criteria:

34 CFR 690.83 states, “Institutions must report student payment data within 30 calendar days after the school makes a payment, or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.”

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its programs.”

Cause:

University of Maryland, College Park—UMCP lacked adequate internal controls to ensure Pell Payment Data information was submitted to DOE in a timely manner.

Towson University—TU experienced major difficulties trying to transfer PeopleSoft information to the COD system. The PeopleSoft system had been recently implemented and was used by the Student Financial Aid Office.

Effect:

UMCP and TU are not in compliance with federal regulations concerning the timely submission of Pell Payment Data.

Recommendation:

We recommend that UMCP and TU establish internal controls to ensure that the required Pell Payment Data reports are submitted to DOE in the required timeframe.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-17 (continued)

Auditee Response and Corrective Action Plan:

University of Maryland, College Park—The University agrees with this finding. Software used to implement the new COD processes contributed to the inconsistent reporting of Federal Pell Grants to the Department of Education. The software that the University uses to administer student financial aid did not properly generate the Pell Grant origination and disbursement records. Our sy005ocD0056 personnel worked ~~with~~ ^{along with} our software vendor to make proper adjustments to successfully implement the new COD process.

To ensure compliance, a rewrite of this program has recently been installed and as of Spring 2005, we have automated the job schedules so that the Pell origination and disbursement files are automatically generated twice a month and transmitted to the Department of Education.

Towson University—The University concurs with this finding. Delays in submitting Pell Payment Data was directly related to the conversion of the Student Financial Aid Sy005o to PeopleSoft. Problems related to reporting Pell origination, change and disbursement data were corrected on August 30, 2004.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-18

Research and Development Cluster

The University of Maryland College Park does not adequately monitor subrecipients.

Condition:

The University of Maryland College Park's (UMCP) Office of Research Administration and Advancement (ORAA) is responsible for monitoring subrecipients and obtaining A-133 audit reports when entities are required to have audits. They use the Research Administration and Advancement (RAA) system to track awards made to contractors. Initially, we obtained a list of subrecipients from ORAA and reviewed the subawards. We noted that the list included for profit entities as well as non-profit entities. We then obtained a list from accounts payable to show the actual amount paid and compared the two lists and noted differences.

The RAA system data is not reliable to adequately monitor subrecipients. The system shows the entities that need and the entities that do not need audits in accordance with OMB Circular A-133. However, we noted some for profit entities that were flagged as needing an A-133 audit.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-18 (continued)

Criteria:

OMB Circular A-133 subpart D Section .400 (d)(4) states, “pass-through entities should ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.”

OMB Circular A-133 subpart D Section .400 (d)(5) states, “pass-through entity should issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.”

Cause:

The UMCP does not have an adequate system in place to identify and monitor subrecipient compliance with OMB Circular A-133 subpart D.

Effect:

Subrecipients are not being monitored in accordance with OMB Circular A-133 subpart D.

Recommendation:

We recommend that UMCP strengthen its internal control procedures to adequately identify and monitor subrecipient compliance with the audit requirements of OMB Circular A-133 subpart D.

Auditee Response and Corrective Action Plan:

The University agrees with the finding. The Office of Research Administration and Advancement has established the position of Co

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-19

Research and Development Cluster

Time and effort reports were not completed to substantiate payroll charges to federal awards by the University of Maryland Baltimore.

Condition:

We reviewed 40 expenditures from research and development federal awards totaling \$285,674 for the fiscal year ended June 30, 2004. From these 40, we reviewed 20 payroll transactions totaling \$55,026 and noted that the University of Maryland, Baltimore (UMB) did not complete time and effort reports to substantiate payroll charges for 3 of the 20 transactions totaling \$16,804.

Criteria:

OMB Circular A-21(J)(8)(c)(2)(b) states, “These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity reports.”

OMB Circular A-21(J)(8)(c)(2)(c) states, “Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification will sign the reports that the work was performed.”

OMB Circular A-21(J)(8)(d)(1) states, “Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member’s regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary.”

Cause:

UMB did not require complete time and effort reports for payroll expenditures charged to federal grants and contracts.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-19 (continued)

Effect:

The payroll charges to this research and development contract during the fiscal year ended June 30, 2004 are not supported by time and effort reports resulting in approximately \$16,802 in questioned salary and wage costs.

Recommendation:

We recommend that UMB complete time and effort reports for all faculty and staff to support payroll charges to research and development grants during the fiscal year ended June 30, 2004 and for subsequent periods. We also recommend that UMB pursue settlement of the questioned costs with the applicable federal

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-20

Research and Development Cluster

Internal controls at the University of Maryland Baltimore over the cash management process are weak.

Condition:

The draw down of research and development funds is prepared and processed by the University of Maryland Baltimore's (UMB) Financial Services Office. We noted that one person is responsible for preparing and processing the draw down request. We reviewed 15 draw down requests totaling \$45.1 million of which \$1.6 million related to the grants under review. For 6 of the 15 draw downs, we could not trace the draw down of federal funds to the amount of actual expenditures incurred. In addition, we noted that management neither reviews the draw down determination for accuracy nor approves the requests prior to requesting reimbursement from the federal government.

Due to the lack of review and approval of draw downs, the UMB made a duplicate draw down of \$8.2 million on a National Institutes of Health (NIH) grant between April and May 2003. However, the UMB failed to reconcile the draw downs made during the fiscal year and reported the over drawn amount on the SF 272 financial report for the quarter ended September 30, 2003. The funds were not returned to NIH until November 26, 2003, nearly four months after the over drawn amount was made.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the amount of Federal funds obligated is properly accounted for and that the funds are used in accordance with the applicable Federal laws, regulations, and the terms and conditions of the award." (81 FR 80590, 8/11/16)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-20 (continued)

Effect:

Internal controls for the cash management are not adequate to ensure draw downs are properly supported and reviewed prior to submission.

Recommendation:

We recommend that UMB establish internal control procedures to ensure that cash draw downs are supported with financial records and reviewed and approved prior to submission to the federal agency. We recommend that UMB ensure that draw downs are reconciled in a timely fashion.

Auditee's Response and Corrective Action Plan:

The University agrees with the recommendation. We have enhanced our system of internal controls by requiring two separate individuals to calculate the draw down amount based on our expenses in the Financial Accounting System. The calculated amounts are compared and when they are satisfied that the drawdown request is correct, it is presented to the Manager of Restricted Fund Accounting for review and final approval.

As of July 2004, UMB increased the frequency of NIH draw downs to biweekly.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-21

Department of Health and Mental Hygiene (DHMH)

Medicaid Cluster

CFDA No. 93.777 – State Survey and Certification of Health Care Providers and Suppliers

CFDA No. 93.778 – Medical Assistance Program

Internal control weakness over the Federal cash draw down process.

Condition:

Each week, the Office of Planning and Finance prepares a cash draw down memorandum and sends it to General Accounting requesting them to draw down federal funds based on the amounts in the memorandum. We reviewed 10 cash draw down memorandum requests and noted that 4 memorandum requests totaling \$74,175,596 had no audit evidence of review and approval by management prior to submission to the Center for Medicare and Medicaid's Payment Management System (CMS) for reimbursement.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Cause:

Management's internal control procedures over cash reimbursement of medical assistance expenditures did not require formal documentation of reviews for a portion of the fiscal year.

Effect:

There is no assurance that all cash draw downs of federal funds are reviewed and approved prior to submission to the CMS.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-22

Department of Health and Mental Hygiene (DHMH) CFDA No. 93.778 – Medical Assistance Program

The Department of Health and Mental Hygiene used a check clearance pattern to make draw downs that was not agreed to in the Cash Management Improvement Act Agreement between the State Treasurer of Maryland and the Secretary of the Treasury – United States Department of Treasury.

Condition:

To comply with the provisions of the Cash Management Improvement Act (CMIA) of 1990, the State Treasurer of Maryland entered into a CMIA agreement with the U.S. Department of Treasury. The agreement took effect July 1, 2002 and remains in effect through June 30, 2007.

We noted that DHMH certified within the CMIA Agreement that Federal Funds on behalf of Payments to Local Health Departments would be drawn down using the Immediate Monthly Draw Funding Technique. However, Federal Funds on behalf of Payments to Local Health Departments were being drawn down using the Fixed Administrative Allowances – Biweekly Payroll Funding Technique. On June 14, 2002, DHMH certified the accuracy of a clearance pattern that they are not adhering to.

Criteria:

31 CFR 205.7A states, “We or a State may amend a Treasury-State agreement at any time if both we and the State agree in writing.”

31 CFR 205.7C states, in part, “We and a State must amend a Treasury-State agreement as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. A State must notify us in writing within 30 days of the time the State becomes aware of a change, describing the Federal assistance program change. The notification must include a proposed amendment for our review and a current list of all programs included in the Treasury-State agreement. Amendments may address, but are not limited to:

- (1) Additions or deletions of Federal assistance programs subject to this subpart A;
- (2) Changes in funding techniques; and
- (3) Changes in clearance patterns.”

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-22 (continued)

Cause:

DHMH decided to use a different funding technique to reimburse the Local Health Departments. DHMH did not make the appropriate request for this change of the Secretary of the Treasurer-United States Department of the Treasury.

Effect:

DHMH is not complying with the terms defined in the CMIA agreement in regards to payments to Local Health Departments.

Recommendation:

We recommend that DHMH follow up with the State Treasurer of Maryland to ensure the appropriate amendment is made to the CMIA agreement in regards to the methodology of reimbursing Local Health Departments.

Auditee Response and Corrective Action Plan:

The Department has requested that the Treasurer's Office remove the Grants to Local Health Department component from the CMIA agreement. This component is unnecessary and is not used because grants to local health departments are funded by Medicaid's Administrative Cost Grant which is drawn using the Biweekly Payroll Funding Technique.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-23

**Department of Health and Mental Hygiene (DHMH)
Medicaid Cluster
CFDA No. 93.778 – Medical Assistance Program**

Internal control weakness over Financial Reporting Process.

Condition:

We selected two of the PMS-272 Quarterly Cash Transactions Reports for testing and noted that there was no audit evidence of a supervisory review and approval prior to submission to the Center of Medicare and Medicaid (CMS) Payment Management System (PMS). We also noted that the reports' accuracy was certified by an official who did not review the report before submission.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, "The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Cause:

The DHMH does not have adequate internal control procedures over the review and submission of the PMS-272 reports.

Effect:

There is no assurance that the PMS-272 reports submitted are reviewed and approved prior to submission.

Recommendation:

We recommend that the DHMH establish proper internal control procedures to ensure a supervisor reviews and approves the PMS-272 reports prior to submission to the Payment Management System.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-23 (continued)

Auditee Response and Corrective Action Plan:

With regard to the Title XIX and XXI components of the PMS-272 (Payment Management System), supervisory personnel within the Office of Planning and Finance, Medical Care Programs, have consistently reviewed and approved the reconciliation prior to forwarding to the Division of General Accounting. In response to this audit issue, the reviewing, supervisory personnel will sign and date each completed review.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-24

**Department of Health and Mental Hygiene
Medicaid Cluster
CFDA No. 93.778 – Medicaid Assistance Program**

Internal control weakness over the eligibility determination process for medical assistance benefits.

Condition:

On July 1, 1985 the Maryland State Department of Health and Mental Hygiene (DHMH) entered into an agreement with the Maryland State Department of Human Resources (DHR). DHR agreed to determine eligibility for Medical Assistance on a uniform20.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-24 (continued)

We also reviewed 40 medical assistance cases where redeterminations were due during the fiscal year ended June 30, 2004. We noted that 18 of the 40 cases (45%) lacked one or more of the required documentation or verification or was not processed within the required timeframe to determine eligibility. We reviewed the applicant's case files and noted the following:

- For 1 of the 40 cases the recipient did not provide a social security number.
- For 7 of the 40 cases the applicant's income was not verified.
- For 12 of the 40 cases the applicant's resources were not verified.
- For 5 of the 40 cases the application was not processed within the required timeframe.
- For 15 of the 40 cases the case file did not contain the documentation to support the agency's decision.
- For 13 of the 40 cases we were unable to determine whether the applicant's benefit payment was calculated properly.
- For 15 for the 40 cases the case files did not contain the necessary documentation to properly support the eligibility determination decisions, thus, we could not determine whether the applicants should have been eligible or ineligible for medical assistance benefits during fiscal year 2004.

This is a repeat finding from the Fiscal Year Ended June 30, 2003 Single Audit Report finding number 2003-7.

Criteria:

42 CFR 435.907 (a) states, "The agency must require a written application from the applicant, an authorized representative, or, if the applicant is incompetent or incapacitated, someone acting responsibly for the applicant."

42 CFR 435.910 (a) states, "The agency must require, as a condition of eligibility that each individual (including ch

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-24 (continued)

42 CFR 435.948 (a) states, “Except as provided in paragraphs (d), (e), and (f) of this section, the agency must request information from the sources specified in this paragraph for verifying Medicaid eligibility and the correct amount of medical assistance payments for each applicant (unless obviously ineligible on the face of his or her application) and recipient. The agency must request—

- (1) State wage information maintained by the SWICA during the application period and at least on a quarterly basis.
- (6) Any additional income, resource, or eligibility information relevant to determinations concerning eligibility or correct amount of medical assistance payments available from agencies in the State or other States administering the following programs as provided in the agency’s State plan:
 - (i) AFDC
 - (ii) Medicaid;
 - (iii) State-administered supplementary payment programs under Section 1616(a) of the Act;
 - (iv) SWICA;
 - (v) Unemployment compensation;
 - (vi) Food stamps; and
 - (vii) Any State program administered under a plan approved under Title I (assistance to the aged), X (aid to the blind), XIV (aid to the permanently and totally disabled), or XVI (aid to the aged, blind, and disabled in Puerto Rico, Guam, and the Virgin Islands) of the Act.”

42 CFR 435.913 (a) states, “The agency must include in each applicant’s case record facts to support the agency’s decision on his application.”

42 CFR 435.911 (a) states, “The agency must establish time standards for determining eligibility and inform the applicant of what they (are). Time standards may only be set if State officials (20150426) (0-800a

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-24 (continued)

Effect:

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-25

**Department of Health and Mental Hygiene (DHMH)
Medicaid Cluster
CFDA No. 93.778 – Medical Assistance Program**

The Department of Health and Mental Hygiene did not maintain audit evidence verifying that subrecipients were not suspended or debarred.

Condition:

We reviewed 12 contract files between the Department of Health and Mental Hygiene and the contractor/subrecipient to ensure that the suspended and debarred certifications were obtained in accordance with the provisions of OMB Circular A-102 and other procurement requirements specific to an award. We noted that 3 out of the 12 contracts made to subrecipients did not have suspension and debarment certifications verifying that the entity is not suspended or debarred.

Criteria:

OMB Circular A-102 (d) states, “**Debarment and Suspension.** Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule.”

Cause:

DHMH personnel were unaware that they had to obtain suspended or debarred certifications from entities that had subawards.

Effect:

Contracts between DHMH and subrecipients were made without proper suspension and debarment reviews. DHMH made contracts with subrecipients who could potentially be suspended and debarred.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-25 (continued)

Recommendation:

We recommend that DHMH adhere to the provisions of OMB Circular A-102 and obtain and maintain suspension and debarment certifications for all covered contracts and subawards.

Auditee Response and Corrective Action Plan:

The Department is in agreement with this finding. The Department will modify its standard Memorandum of Understanding language to include the requirements of Circular A-102(d), “Debarment and Suspension. Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from ineligible for participation in Federal assistance programs under Executive Order 12549.” This contract language will also include signatory documentation by the partnering entity that a search of the Federal Debarment list must be conducted and yield no debarment violations on the part of any entity of the contract, prime or subcontractor.

This contract language will be shared with the DHMH Medicaid award personnel and included in the Local Health Department Funding System Manual. Additional internal controls will require that the no finding printout from the electronic Federal Debarment List be a part of the DHMH contract file.

Auditor’s Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-26

**Department of Health and Mental Hygiene
Medicaid Cluster
CFDA No. 93.778 – Medical Assistance Program**

DHMH did not adequately monitor the contract for outpatient bill audits to ensure that the contractor was in compliance with the contract requirements.

Condition:

On May 1, 2003, the Department of Health and Mental Hygiene (DHMH) entered into a contract with Integrated Health Auditing and Service, Inc. (IHAS) to perform audits of outpatient bills. e b i l l s . S c h e d u l e o f 7 ()] 4 . I H A e 6 4 , 5 7 5 b i l l s .

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-26 (continued)

Auditee Response and Corrective Action Plan:

We agree with the auditor's finding that the contractor did not meet the contract requirement to conduct audits covering at least 50% of the outpatient bills submitted to them by DHMH. However, we have realized that this 50% requirement, which is based on our experience with the inpatient bill audits, is not a reasonable standard for the outpatient audits because the financial return is not significant enough for a contractor to earn an adequate contingency fee. In fiscal year 2004, outpatient audits only produced a net return to the State of \$63,172 with \$19,284 in fees to the contractor. Consequently we are planning to modify this contract requirement to a more reasonable standard, probably linked to the total cost of outpatient services rather than the number of bills. In the future, our goal is to combine the outpatient and inpatient audits into one contract which will give us more latitude in setting monetary goals across both types of services.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-27 (continued)

42 CFR 433.40 (d) states, “Refund of FFP for cancelled (voided) checks –

- (1) General Provisions. If a State has claimed and received FFP for the amount of a cancelled (voided) check, it must refund the amount of FFP received.
- (2) Report of refund. At the time of each calendar quarter, the State agency must identify those checks which were cancelled (voided). The State must refund all FFP that it received for cancelled (voided) checks by adjusting the Quarterly Statement of Expenditures for that quarter.
- (3) If a State does not refund the appropriate amount as specified in paragraph (d) (2) of this section, the amount will be disallowed.”

Cause:

DHMH did not run the R*STARS re9ia 7*,.led

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-27 (continued)

Auditee Response and Corrective Action Plan:

The Division of General Accounting will supply the Medicaid program with an escheated warrant report, as requested but at least quarterly, for preparation of the Quarterly Statement of Expenditures (CMS 64).

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-28

Department of Health and Mental Hygiene (DHMH)

Medicaid Cluster

CFDA No. 93.778 – Medical Assistance Program

DHMH should develop internal controls over the interface process of the eligibility system, Client Automated Resource Eligibility System (CARES), to the medical payment system, Medicaid Management Information System II (MMISII) and resolve identified errors in a timely manner.

Condition:

The Department of Human Resources (DHR) determines the eligibility status of medical assistance participants and documents such status in the Client Automated Resource Eligibility System (CARES). Due to interfacing problems between the eligibility system, CARES, and the payment system, Medicaid Management Information System II (MMIS II), a significant number of recipients encounter errors as part of the enrollment process. This results in recipients potentially having delayed or extended benefits until the identified errors are corrected. It was noted based upon our review that the delay could be up to a month to correct an identified error. Due to the ineffectiveness of the interface, improper claims were likely paid for some of these recipients throughout the fiscal year 2004.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause:

The interface between the CARES application and the MMIS-II application was not thoroughly tested prior to being put into production. As a result, system problems related to the inadequate processing of CARES records were not detected in a timely manner. DHR currently has established a monthly reconciliation process as well as a daily interface error identification process. However, these items are not always being performed nor remediated timely.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-28 (continued)

Effect:

Ineligible or eligible Medicaid recipients were extended or delayed coverage for a period of time. As a result, funds were paid to these recipients in error or services were delayed to a valid recipient. The amount of questioned costs is undeterminable.

Recommendation:

DHMH should make the necessary system enhancements to ensure that the interface process is properly executed. Further, we recommend that the error reports reviewed and remediated on a daily basis. In doing so, there is greater assurance that all recipients will be provided appropriate level of service. We recommend that DHMH identify the cost of the improper Medical Assistance payments and pursue resolution of the questioned costs with the U.S. Department of Health and Human Services.

Auditee Response and Corrective Action Plan:

The MMIS system correctly identifying discrepant information which is sent via the interface. The MMIS system is programmed to reject discrepant information so that the case can be reviewed manually, and the appropriate action can be taken. While we are aware that failing to close eligibility timely can result in additional expenditures, opening a case for an ineligible individual can be even more costly. DHR working with staff from DHMH has made changes to the monthly reconciliation file which has increased the accuracy of the report, and decreased the number of cases which error out. DHR/DHMH is now in the process of modifying the daily file which should further increase accuracy. At the present time, approximately less than 5% of the total monthly cases error out due to discrepancies in eligibility that could result in possible

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-28 (continued)

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-29

Department of Health and Mental Hygiene

**CFDA No. 93.283 – Center for Disease Control and Prevention: Investigations and
Technical Assistance**

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-29 (continued)

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

31 CFR 205 Subpart B: *Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement*, Section 33(a) states, “A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A federal program agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accordance with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.”

Cause:

DHMH’s internal controls do not require a supervisory review of drawdown requests to occur prior to requesting reimbursement of federal funds.

DHMH’s process and internal controls allow for Federal funds to be given to LHD based on allocations, not on actual expenditures.

Effect:

DHMH’s internal controls over the cash management process are not adequate to ensure accurate preparation and processing of federal cash drawdowns, due to the fact that a supervisory review of drawdown requests is not performed prior to requesting reimbursement of federal funds.

DHMH’s internal controls over the cash management process, related to LHD allocations, are not adequate to ensure that drawdown requests are in compliance with 31 CFR 205 Subpart B. This resulted in non-compliance with 31 CFR 205 Subpart B due to funds transfers in excess of the State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-30

**Department of Health and Mental Hygiene
CFDA No. 93.283 – Center for Disease Control and Prevention: Investigations and
Technical Assistance**

Internal control weakness and non-compliance over the Period of Availability monitoring process. DHMH charged expenditures to awards subsequent to 90 days after the end of the funding period.

Condition:

We noted that \$341,984 in obligations relating to the Pfiesteria-Related Illness Surveillance and Prevention Cooperative Agreement U50/CCU315411-05 were liquidated subsequent to the ninety day closeout period after the end of the funding period.

Criteria:

Part 3 Section H (Period of Availability of Federal Funds) of the OMB A-133 Compliance Supplement states, “Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.”

Cause:

DHMH does not have a control in place to prevent expenditures from being charged to grants subsequent to the ninety day closeout period after the end of the funding period.

Effect:

Due to the lack of controls in place at DHMH to prevent expenditures from being charged to grants outside the period of availability, questioned costs of \$341,984 were identified relating to Cooperative Agreement U50/CCU315411-05.

Recommendation:

We recommend that DHMH establish and document internal control procedures to ensure that grants are properly closed out by the ninetieth day after the end of the funding period. This control should be established in conjunction with the recommendation related to FSR reporting to establish a tracking system to ensure FSR’s are filed timely, Finding 2004-31.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-30 (continued)

Auditee Response and Corrective Action Plan:

The Department agrees with the finding and will utilize a FMIS feature to ensure that grants are closed 90 days after the end of the funding period.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-31

**Department of Health and Mental Hygiene
CFDA No. 93.283 – Center for Disease Control and Prevention: Investigations and
Technical Assistance**

Internal control weaknesses and non-compliance over the Financial Status Reporting process.

Condition:

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-31 (continued)

Auditee Response and Corrective Action Plan:

The Department agrees with the finding and will establish a tracking system that ensures that FSR reports are filed timely after the review and approval of an appropriate supervisor.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-32 (continued)

Effect:

DHMH’s internal controls over the earmarking requirements of the NBCCEDP are not adequate to ensure actual expenditures for screening, non-screening, and administration are within the required minimum/maximum percentages allowed under CDC Program Announcement 02060. As a result of this lack of control, compliance for this requirement could not be determined.

Recommendation:

We recommend that DHMH establish and document internal control procedures to ensure that the earmarking requirements of the NBCCEDP are met based on actual expenditures for screening, non-screening, and administration.

Auditee Response and Corrective Action Plan:

Currently, DHMH budgets at least 80% of funds awarded to local jurisdictions under this cooperative agreement for “screening costs” and no more than 7% for administrative costs to keep within the statutory limits on these cost centers. When the final year-end expenditure report is received from each jurisdiction, DHMH has used the budgeted percentage allocation for “screening costs,” “non-screening costs,” and “administrative costs” and applied these percentages to the total actual costs to determine the costs for each of these cost centers.

DHMH understands the recommendation for internal control procedures to ensure that the earmarking requirements of the NBCCEDP are met based on actual expenditures for screening, non-screening, and administration. DHMH will explore with CDC, other states, and other offices within DHMH to determine how best to institute appropriate internal control procedures for this cooperative agreement.

Auditor’s Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-33

Department of Health and Mental Hygiene CFDA No. 93.283 – Center for Disease Control and Prevention: Investigations and Technical Assistance

Internal control weakness and non-compliance over the subrecipient monitoring process. DHMH did not classify subrecipients in accordance with OMB Circular A-133.

Condition:

We noted that one of the twelve contracts tested was improperly classified as a vendor. DHMH's internal controls over subrecipient and vendor determinations are not in accordance with OMB Circular A-133. This internal control weakness also resulted in non-compliance with the subrecipient monitoring requirement of identifying to the subrecipient the Federal award information and applicable compliance requirements (at the time of the award).

Criteria:

45 CFR 74.26 states, "Recipients and subrecipients that are institutions of higher education or other non-profit organizations (including hospitals) shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507) and revised OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OMB Circular A-133, Subpart B, Section 210 (b) states, "Characteristics indicative of a Federal award received by a subrecipient are when the organization: (1) Determines who is eligible to receive what Federal financial assistance; (2) Has its performance measured against whether the objectives of the Federal program are met; (3) Has responsibility for programmatic decision making; (4) Has responsibility for adherence to applicable Federal program compliance requirements; and (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity."

Part 3, Section M (Subrecipient Monitoring) of the OMB A-133 Compliance Supplement states, "A pass-through entity is responsible for award identification. At the time of the award, identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements."

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-33 (continued)

Cause:

DHMH's internal controls over subrecipient and vendor determinations are not in accordance with OMB Circular A-133.

At the time of the award, DHMH did not identify to the subrecipient the Federal award information and applicable compliance requirements.

Effect:

DHMH's internal controls over subrecipient and vendor determinations are not adequate to ensure that subrecipients are properly identified and the OMB Compliance Supplement requirements for subrecipient monitoring are complied with.

Recommendation:

We recommend that DHMH review their current procedures over subrecipient and vendor determinations to ensure that they are in accordance with OMB Circular A-133, Subpart B, Section 210.

Auditee Response and Corrective Action Plan:

To assist Program personnel in properly classifying recipients of federal funds, the Department will delineate the characteristics of a vendor versus a subrecipient in its annual request for subrecipient information.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-34

**Maryland Emergency Management Agency (MEMA)
CFDA No. 97.036 – Public Assistance Grants**

The Maryland Emergency Management Agency did not maintain up-to-date records that could be reconciled between the Fiscal personnel and the Program personnel.

Condition:

During our audit we noted that a significant part of the Maryland Emergency Management Agency’s internal control structure includes the use of spreadsheets to track project applications, project worksheets, project expenditures, drawdowns, and project close-outs. As part of our procedures, we noted these spreadsheets were not always maintained current and were not reconciled to the State’s official accounting system (R*STARS) to ensure completeness and accuracy.

Criteria:

44 CFR Part 13.40 – Monitoring and reporting program performance states in part:

- (a) “Monitoring by grantees – Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements...”

As part of fulfilling their monitoring responsibilities, MEMA has developed a series of spreadsheets to control data and to identify project awards under the program.

Cause:

The program personnel and the fiscal personnel do not update their reporting spreadsheets on an ongoing basis and therefore, it is difficult to tie them to each other, the R*STARS System or reported amounts per the reports filed with FEMA.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-34 (continued)

Effect:

Weak internal controls and/or inadequately maintained spreadsheets which are key to MEMA's internal control structure could lead to noncompliance and inadequate monitoring of compliance with respect to pass-through funding.

Recommendation:

We recommend that the fiscal and the program personnel update their project spreadsheets on a more timely basis in order to keep them up to date with actual expenditures and current project status. In addition, we recommend these spreadsheets be periodically reconciled to the State's R*STARS accounting system.

Auditee Response and Corrective Action Plan:

The Agency concurs with the auditor's recommendation. These spreadsheets were initially set up as an internal "working tool" for the accounts payable staff to track payments and check numbers for use in answering inquiries from the Public Assistance staff and Public Assistance applicants. These spreadsheets were at the time of audit considered in process. The audit comparison was done on a fiscal year basis, however, these spreadsheets were not compiled on a fiscal year basis, but compiled by process date.

Based on the recommendation by the audit staff, it has been determined that Accounts Payable staff will keep these spreadsheets up-to-date and meet with the Public Assistance Program staff on a monthly basis to reconcile

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-35 (continued)

- (b) “Subgrantees. State or local governments...that provide Federal awards to a subgrantee, which expends \$300,000 or more in federal awards in a fiscal year, shall:
- (1) Determine...subgrantees have met the audit requirements of the Act and whether subgrantees covered by OMB Circular A-110 – Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, have met the audit requirements of the Act;
 - (2) Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations;
 - (3) Ensure that appropriate corrective action is taken within 6 months after receipt of the audit report in instances of noncompliance with Federal laws and regulations;
 - (4) Consider whether subgrantee audits necessitate adjustment of the grantee’s own records.”

Cause:

MEMA did not maintain adequate internal controls in the form of a control list or other means to ensure subrecipients requiring single audits completed such audits and submitted them to MEMA.

In addition, due to staffing limitations, MEMA does not have a formalized desk review or similar process in place to review subrecipient single audit reports nor is there a process in place to follow-up on subrecipient corrective action or issue management decisions with respect to findings contained in subrecipient audit reports.

Effect:

MEMA is not in compliance with subrecipient audit monitoring requirements and has inadequate internal controls with respect to subrecipient audit monitoring. However, due to the extensive involvement of MEMA and FEMA in the Project Worksheet (PW) process approving a project and its scope as well as both agencies extensive involvement in the project close-out process, this weakness is not considered material to overall subrecipient compliance with laws and regulation and related pass-through entity monitoring requirements.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-35 (continued)

Recommendation:

We recommend that MEMA review their current procedures over subrecipient monitoring. MEMA should develop procedures that are adequate to ensure that all required single audit reports are received and reviewed. In addition, monitoring procedures should be formally documented and appropriate follow-up performed on any deficiencies identified to ensure appropriate corrective action has been taken by subrecipient.

Auditee Response and Corrective Action Plan:

The Agency concurs with the auditor's recommendation, however, subrecipients have nine months from the ending of the fiscal year to have their single audits performed and their reports compiled and forwarded to the granting agency. These reports for fiscal year ended June 30, 2004 would be required to be received by MEMA by March 31, 2005. This audit was performed prior to the deadline of March 31, 2005, therefore, not all subrecipients had yet forwarded these reports. Control sheets did exist, however, they were not kept up-to-date.

Agency personnel performed an inventory of single audit reports not yet received and letters informing these subrecipients of their requirement to forward these reports were mailed to the appropriate subrecipients. An updated control sheet and record of review of these reports has also been established.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-36

**Maryland Emergency Management Agency (MEMA)
CFDA No. 97.036 – Public Assistance Grants**

The Maryland Emergency Management Agency did not ensure that the June 30, 2004 FEMA 20-10 quarterly report and PSC 272 Federal Cash Transaction Report filed with FEMA accurately represented the amounts per the State’s general ledger, R*STARS.

Condition:

We selected one quarterly Financial Status Report (FSR), the FEMA 20-10 and one quarterly Federal Cash Transaction Report, PSC 272 for the State fiscal year ended June 30, 2004 to test for accuracy. We noted, as a result of our testing of the FSR and PSC 272 for the quarter and period ended June 30, 2004 that the reports filed did not agree with the State’s general ledger, (R*STARS), as follows:

<u>Grant Number</u>	<u>Expenditures Reported</u>	<u>Expenditures Per R*STARS</u>	<u>Difference</u>
FEMA 3179	\$ 18,977,360	\$ 18,961,424	\$ 15,936
FEMA 1492	\$ 21,469,436	\$ 21,536,892	\$(67,456)

Criteria:

44 CFR Part 13.41 – Financial Reporting, states in part:

- (a) “Financial Status Report – Grantees, will use..., the Financial Status Report (FSR), to report the status of funds for all nonconstruction grants and for construction grants...”
- (b) “Federal Cash Transactions Report – ...For grants paid by letter of credit, Treasury check advances or electronic transfer of funds, the grantee will submit the standard Form 272...”

Inherent in the requirement to submit these reports as well as instructions for the FSR and PSC 272 report further state the reports filed should directly reflect the amounts reported in the Program’s supporting accounting records.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-36 (continued)

Cause:

The variances could not be explained by fiscal personnel of the Maryland Emergency Management Agency.

Effect:

The amounts reported on the June 30, 2004 quarterly FSR and PSC 272 reports overstated expenditures for Grant 3179 – President’s Day Snow Storm by \$15,936 and understated expenditures reported for Grant 1492 – Hurricane Isabel by \$67,456.

Recommendation:

We recommend that the Public Assistance Program fiscal personnel should prepare a reconciliation to ensure that the amounts of expenditures per their quarterly FEMA 20-10 reports agree to the total expenditures per the State’s R*STARS accounting system.

Auditee Response and Corrective Action Plan:

The Agency concurs with the auditor’s finding. The variances between the FEMA 20-10 reports and the State’s R*STARS accounting system were due to year-end adjustments made in the State’s year-end closing adjustment month 13. The FEMA 20-10 reports and the PSC 272 Federal Cash Reports were prepared using the R*STARS month 12 information ended June 30, 2004. The fiscal personnel will ensure that a reconciliation between the FEMA 20-10 reports, PSC 272 Federal Cash Reports and the State’s R*STARS system is performed and any variances investigated and resolved before any future federal reporting is filed with the Federal grantor agency.

Auditor’s Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-37

State of Maryland Department of Labor, Licensing and Regulation (DLLR)

WIA Cluster

CFDA No. 17.258 – WIA Adult Program

CFDA No. 17.259 – WIA Youth Activities

CFDA No. 17.260 – WIA Dislocated Workers

The State of Maryland Department of Labor, Licensing and Regulation did not maintain supporting documentation to verify that “during the award” monitoring was conducted.

Condition:

DLLR has documented procedures to perform “during the award” monitoring. We noted that there were no “during the award” monitoring procedures performed.

Criteria:

OMB Circular A-133 Section .400(d)(3) states, “Pass-through entity responsibilities: A pass-through entity shall perform the following for federal awards it makes: 1) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

Cause:

The procedures as designed by DLLR for on-site fiscal monitoring were not performed due to staffing shortages as a result of state budget reductions.

Effect:

Subrecipient “during the award” monitoring did not occur.

Recommendation:

We recommend that DLLR follow the procedures designed for fiscal on-site monitoring to ensure that subrecipients are in compliance with program requirements.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-37 (continued)

Auditee Response and Corrective Action Plan:

The agency concurs with the audit finding. The on-site monitoring for the award period audited was not performed due to staffing shortages. DLLR has recently hired a fiscal monitor and engaged the services of a consultant to ensure that on-site fiscal monitoring will be performed in compliance with federal requirements. Also, DLLR is in the process of recruiting three program monitors. The annual on-site subrecipient monitoring will be completed by the end of the current calendar year.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-38 (continued)

Recommendation:

We recommend that the DLLR implements procedures to ensure timely filing of wage data by employers.

Auditee Response and Corrective Action Plan:

The 2 instances where the earnings data reported to DOL did not agree with what was in the Unemployment Insurance Automated Benefits System (MABS). This problem was caused by the delinquent wage reporting by employers. In order to address this problem, the State has begun to work on procedures where the Wage Record Archive, maintained by the University of Baltimore, would be refreshed with the total MABS database on a quarterly basis. This should eliminate the problem of late reported wages not being in the data reported to USDOL.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-39

Maryland Department of Labor, Licensing and Regulation (DLLR)

WIA Cluster

CFDA No. 17.258 – WIA Adult Program

CFDA No. 17.259 – WIA Youth Activities

CFDA No. 17.260 – WIA Dislocated Workers

CFDA No. 17.255 – Workforce Investment Act

Internal control weaknesses related to accurate preparation of the Schedule of Expenditures of Federal Awards and periodic revenue and expenditure reports.

Condition:

For the fiscal year ended June 30, 2004, the Department of Labor, Licensing and Regulation (DLLR) personnel submitted revenue and expenditure reports to the federal grantor agency that reported revenues and expenditures by the CFDA number. The accuracy and completeness of these expenditure reports with respect to the expenditure amounts reported by the CFDA number are required to be tested as part of the OMB Circular A-133 audit. DLLR prepares the federal periodic reports based on activity recorded in the State's general ledger, R*STARS. Additionally, DLLR personnel report these revenues and expenditures to the State of Maryland Comptroller's Office via submission of the Schedule G, which is the source of the Schedule of Expenditures of Federal Awards. We noted that the DLLR did not reconcile fiscal year revenue or expenditure amounts reported on the periodic reports submitted to the federal grantor agency to the fiscal year revenue and expenditure amounts reported on the Schedule G or to the revenue and expenditures reported in R*STARS. The three types of reports, Schedule G, R*STARS, and the Federal Periodic Reports should reconcile with each other. The following shows a summary

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-39 (continued)

Expenditures	Schedule G	R*STARS	Federal Periodic Reports SF – 269
CFDA # 17.258	\$ 14,725,908	\$ 14,232,618	
CFDA # 17.259	12,012,266	11,471,467	
CFDA # 17.260	17,882,484	7,127,335	
Total WIA Cluster	<u>\$ 44,620,658</u>	<u>\$ 32,831,420</u>	<u>\$ 47,902,699</u>

We also noted during our review of the Schedule G originally prepared by DLLR that DLLR did not break out CFDA No. 17.255 into the CFDA No.'s listed above, which according to the Catalog of Federal Domestic Assistance (CFDA) should not be used anymore. Only after this problem was discussed with DLLR did they attempt to record the amounts in the proper CFDA No.'s. On the final Schedule G, which is the support for the expenditures reported in the Schedule of Expenditures of Federal Awards, CFDA No. 17.255 has still not been completely allocated to the CFDA No.'s listed above. Revenues of \$2,263,560 and expenditures of \$2,524,972 still remain in CFDA No. 17.255 on the Schedule G and the Schedule of Expenditures of Federal Awards.

Criteria:

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

OMB Circular A-133 Subpart C Section .310 (b) also indicates that with respect to the Schedule of Expenditures of Federal Awards, the auditee shall “provide total federal awards expended for each individual program and the CFDA number.”

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-39 (continued)

Cause:

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-39 (continued)

Auditee Response and Corrective Action Plan:

The agency took appropriate action completing the reconciliation prior to the submission of the Schedule of Expenditures of Federal Awards. The Chief of General Accounting will do interim reviews of Schedule G balances. This is in addition to the annual review and reconciliation of Schedule G and R*STARS.

Auditor's Conclusion:

While the agency has taken steps to correct the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of Federal Awards is now materially correct, there still remains the control weakness that caused the incorrect preparation of the Schedule G. The agency materially corrected the Schedule G and thus the Schedule of Expenditures of Federal Awards, however, our original finding as stated above with respect to the control weaknesses remains the same.

State of Maryland

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-40 (continued)

Criteria:

The Secretary of the Treasury, United States Department of the Treasury and the State Treasurer of Maryland, in order to implement Section 5 of the Cash Management Improvement Act of

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-40 (continued)

Auditee Response and Corrective Action Plan:

MSDE concurs with this finding. As of January 17, 2005, the Division of Business Services has processed Child Nutrition Cluster draw downs within the nine day clearance pattern specified by the Cash Management Act Agreement (CMIA). Interpretation of the nine day clearance pattern was corroborated between Maryland and Federal Treasury Organizations by January 14, 2005. In addition, MSDE prepares preliminary interest calculations using the latest spreadsheet provided by Maryland Treasury. Completed spreadsheets are forwarded to Maryland Treasury for review and subsequent submission to Federal Treasury.

State Treasurer's Office (STO) will adjust the fiscal year 2005 CMIA annual report that is due to Federal Treasury on December 31, 2005 to reflect any adjustments to interest liability or receivable related to this finding. STO and Maryland State Department of Education (MSDE) will furthermore review; the current procedures at MSDE and STO Banking services related to the request for federal funds, the spreadsheet that is used to calculate interest and the transmittal dates on the original documentation to make sure that they are in accordance with the CMIA agreement.

Auditor's Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-41

**Maryland State Department of Education (MSDE)
CFDA No. 84.367 – Improving Teacher Quality State Grants**

The Maryland State Department of Education did not maintain supporting documentation to verify that “during the award” monitoring was conducted in accordance with OMB Circular A-133.

Condition:

MSDE officials stated that monthly superintendent meetings were conducted, and briefings as well as on-site visits were held throughout the fiscal year. However, there was no documentation to support the monitoring procedures actually performed or the results of such procedures. Therefore, we could not verify that these “during the award” monitoring procedures actually occurred.

Criteria:

OMB Circular A-133 .400(d)(3) states that “Pass-through entity responsibilities: A pass-through entity shall perform the following for federal awards it makes: 1) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

Cause:

Supporting documentation of “during the award” monitoring was not available.

Effect:

We were unable to verify management’s assertion that “during the award” monitoring occurred.

Recommendation:

We recommend that MSDE review their current procedures over “during the award” subrecipient monitoring and ensure procedures are adequate to determine subrecipient compliance with program requirements. In addition, monitoring procedures should be formally documented and appropriate follow-up performed on any deficiencies identified to ensure appropriate corrective action.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-41 (continued)

Auditee Response and Corrective Action Plan:

MSDE concurs with this finding.

- Effective March 1, 2005, the Assistant State Superintendent for Instruction has identified appropriate Division of Instruction Staff (the Elementary Coordinator of Professional Development and the Policy Coordinator of Professional Development) who will be responsible for monitoring subrecipient compliance.
- By April 1, 2005, the Assistant State Superintendent for Instruction and identified Division of Instruction Staff will have met with Division of the Business Services Staff to strengthen procedures for “during the award” monitoring that is adequate to determine subrecipient compliance with program standards.
- By May 1, 2005, the Assistant State Superintendent for Instruction will strengthen specific procedures for:
 - “During the award” monitoring that is adequate to determine subrecipient compliance with program standards.
 - Documenting and providing appropriate follow-up on any deficiencies identified from “during the award” monitoring.
- By June 1, 2005, identified Division of Instruction Staff will have implemented monitoring procedures, including documenting and appropriate follow-up procedures, beginning with the Master Plan process followed by ongoing monitoring throughout the grant award period.

Auditor’s Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-42

Maryland State Department of Education (MSDE) CFDA No. 84.367 – Improving Teacher Quality State Grants

MSDE should comply with eligibility requirement calculations on a consistent basis.

Condition:

Local Educational Agencies (LEA) apply to the MSDE for program funds. The allocation of these amounts is based on a hold harmless amount based on 2001 amounts provided under the Eisenhower Professional Development and Class-Size Reduction program. The excess of funds over these amounts are allocated based on an 80/20 split. The 80% Children in Poverty fiscal year June 30, 2004 enrollment data used for the allocation was 2001 enrollment data which was also the same amount used for the prior year's allocation and the 20% enrollment of 5-17 year olds fiscal year June 30, 2004 enrollment data used for the allocation was an updated 2002 enrollment data.

Criteria:

Section 2121 (a) of the ESEA (20 USC 6621 (a)) states, "20% of the excess funds must be distributed to the LEAs based on the relative population of children ages 5 through 17, as determined by the Secretary and 80% of the excess funds must be distributed to LEAs based on the relative numbers of individuals ages 5 through 17 from families with incomes below the poverty line, as determined by the Secretary."

Cause:

MSDE experienced pressure from the LEAs to perform their allocations and at the time the allocations were prepared the updated enrollment data for 2002 was not available for the 80% calculation of Children in Poverty. The staff used the 2001 data from the prior year calculation and just carried it forward, but did use the updated 2002 data for the 20% calculation.

Effect:

The allocation for fiscal year 2004 is e074 TwiIE]Teu56o(rMSDE experi1fo)Tj9.9(g 20%)]Tion of

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-42 (continued)

Recommendation:

We recommend that MSDE implement procedures to ensure the calculation of the 80/20 split is done using consistent data in order to calculate an accurate allocation for the LEAs.

Auditee Response and Corrective Action Plan:

MSDE concurs with this finding. Improving Teacher Quality was a new program in fiscal year 2003 and only the regulations without supporting guidance were available when the calculation for the Local Education Agencies (LEAs) allocation was done for fiscal year 2003. Based on these regulations, the Division of Business Services (DBS) utilized fiscal year 2001 data (for both State and federal source data) in calculating the fiscal year 2001 LEAs allocations.

Based upon receipt and review of Non-Regulatory guidance, MSDE-DBS changed the process of calculating the LEAs allocations in fiscal year 2004. For fiscal year 2004 and future years, prior year's fiscal data is used to calculate the 20% portion of the LEAs allocation since final State of Maryland data is routinely received in time to perform the calculations. Two year's prior fiscal data is used to calculate the 80% portion of the LEAs allocation since the final 'Children in Poverty' enrollment data used in this calculation is supplied by the federal

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-43

Maryland State Department of Education (MSDE) CFDA No. 84.367 – Improving Teacher Quality State Grants

Internal control weakness over cash management process.

Condition:

Subrecipients request reimbursements for program expenditures monthly and upon payout, MSDE is required to drawdown federal funds in a timely manner. We reviewed 50 subrecipient requests amounting to \$28,761,019.17, which were submitted for reimbursement between July 1, 2003 and June 30, 2004. The subrecipients were reimbursed timely, however, MSDE did not start to draw down federal funds to cover these expenditures until November 17, 2003.

Criteria:

31 CFR Part 205.33 (subpart B) states, “The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102.”

OMB Circular A-133 Subpart C Section .300 (b) states, “The auditee shall maintain internal controls over Federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.”

Cause:

MSDE experienced staff turnover within the Accounting Department during fiscal year 2003, which caused an untimely system implementation of this program’s drawing down of federal funds and cash management.

Effect:

By not requesting reimbursements of federal funds timely, MSDE is creating undue burden on the State’s cash position.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-43 (continued)

Recommendation:

We recommend that MSDE implement procedures to ensure request for reimbursement of federal funds is completed on a timely basis.

Auditee Response and Corrective Action Plan:

MSDE concurs with this finding. The auditors determined and documented during their fieldwork that “the problem was corrected after November 17, 2003 and the State has been drawing down funds on a monthly basis from that period until the end of our audit period.” The auditors noted that this finding was corrected as of November 17, 2003.

Auditor’s Conclusion:

Based on the above, the finding remains as stated.

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44

**Department of Human Resources (DHR)
CFDA No. 93.563 – Child Support Enforcement**

Inadequate internal controls over child support inter and intra State cases.

Condition:

When a Child Support Enforcement Interstate Case is initiated by the State of Maryland (Maryland), Maryland has 10 days to notify the responding State of any change or deviation in the case. When a Child Support Enforcement Interstate Case is initiated by another State and Maryland is responding, Maryland has 10 days to review and notify the initiating State of any changes or deviations in the case. During our review, we noted that in 1 out of 20 initiating cases or 5%, the responding State was not notified within the proper time frame of a change in the case. In 2 out of 20 responding cases or 10%, the initiating State was not notified of any change or deviation in the case within the proper time frame.

The Child Support Enforcement division is obligated to determine whether the non-custodial parent has a health insurance policy and if so must obtain the policy name, number, and name(s)

State of Maryland

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44 (continued)

Program Compliance for Interstate Cases: Standard Compliance Rate = 75%

	Number of Cases Reviewed	Percent Within Compliance	Percent Out of Compliance
FFY 2003	379	81%	18%
FFY 2002	346	95%	5%
FFY 2001	283	97%	3%

Inadequate insurance information—CSEA disagrees with the finding. CSEA is in substantial compliance with the federal requirement. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated States to develop a self assessment process to assess how well federal requirements are being met in providing child support services. Also, PRWORA established performance standard at the 75% compliance rate for Interstate cases. To comply with performance standards for Securing and Enforcing Medical Support Orders, federal regulation at 45 CFR 308.2(e), mandated States to have and use procedures required under this

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44 (continued)

**Program Compliance for Securing and Enforcing Medical Support Orders: Standard
Compliance Rate = 75%**

	Number of Cases Reviewed	Percent Within Compliance	Percent Out of Compliance
FFY 2003	382	87%	13%
FFY 2002	346	90%	10%
FFY 2001	751	69%	31%

Section 308.2(g) **required program compliance** *Interstate services* that State must have and use procedures required under this paragraph in at least 75% of the cases reviewed. (1) Initiating interstate cases: (iii) upon receipt of new information within 10 working days pursuant to 303.7(b)(6) of this chapter. (2) Responding interstate cases: (v) within 10 working days of receipt of new information notifying the Initiating State of that new information pursuant to 303.7(c)(9) of this chapter. In view of the 75% Standard, the State of Maryland met the required compliance standard.

CSEA has consistently met the Federal Performance Standard in Interstate cases for the past three Federal Fiscal Year Reports as documented in the table below:

Program Compliance for Interstate: Standard Compliance Rate = 75%

	Number of Cases Reviewed	Percent Within Compliance	Percent Out of Compliance
FFY 2003	379	81%	18%
FFY 2002	346	95%	5%
FFY 2001	283	97%	3%

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44 (continued)

Improper coding of cases—CSEA disagrees with the finding. CSEA is in substantial compliance with the federal requirement. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated States to develop a self assessment process to assess how well federal requirements are being met in providing child support services. Also, PRWORA established performance standard at the 75% compliance rate for interstate cases. To comply with performance standards for Interstate Services, federal regulation at 45 CFR 308.2(g), mandated States to have and use procedures required under this paragraph in at least 75% of the cases reviewed. (1) Initiating interstate cases: (iii) upon receipt of new information within 10 working days pursuant to 303.7(b)(6) of this chapter. (2) Responding instate cases: (v) within 10 working days of receipt of new information notifying the initiating State of that new information pursuant to 303.7(c)(9) of this chapter. In view of the 75% Standard, the State of Maryland has met the required compliance standard. CSEA has consistently met the Federal Performance Standard in Interstate cases for the past three Federal Fiscal Year Reports as documented in the table below:

Program Compliance for Interstate: Standard Compliance Rate = 75%

	Number of Cases Reviewed	Percent Within Compliance	Percent Out of Compliance
FFY 2003	379	81%	18%
FFY 2002	346	95%	5%
FFY 2001	283	97%	3%

Inadequate enforcement action taken—CSEA disagrees with the finding. CSEA is in substantial compliance with the federal requirement. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated States to develop a self assessment process to assess how well federal requirements are being met in providing child support services. Also, PRWORA established performance standard at the 75% compliance rate for Enforcement of Child Support Orders. To comply with performance standards for Interstate Services, federal regulation at 45 CFR 308.2(c), mandated States to have and use procedures required under this paragraph in at least 75% of the cases reviewed. If income withholding was appropriate, a case would meet the review requirement if it was received during the review

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44 (continued)

period, notwithstanding mandatory timeframes. A review of the enforcement of orders would include all cases in which an ongoing income withholding is in place, as well as those cases in which new or repeated enforcement actions were required during the review period. CSEA has consistently met the Federal Performance Standard in Enforcement of Orders in both Interstate and intrastate cases for the past three Federal Fiscal Year Reports as documented in the table below:

Program Compliance for Enforcement of Orders: Standard Compliance Rate = 75%

	Number of Cases Reviewed	Percent Within Compliance	Percent Out of Compliance
FFY 2003	382	81%	19%
FFY 2002	349	94%	6%
FFY 2001	749	93%	7%

Section 308.2(g) **required program compliance (g) Interstate services** that State must have and use procedures required under this paragraph in at

State of Maryland

Schedule of Findings and Questioned Costs (continued)

Section III – Federal Award Findings and Questioned Costs (continued)

Finding 2004-44 (continued)

State of Maryland

Summary Schedule of Prior Audit Findings

As of March 14, 2005

Single Audit Findings for Fiscal Year Ended June 30, 2003

Department

Program

State Treasurer's Office Did Not Effectively Perform Cash Reconciliations for the Fiscal Year Ended June 30, 2003 in a Timely Manner

CFDA Number

Finding Number

2003-1

Comment

Unresolved by the Federal Government – Original Response and Corrective Action Plan: The daily processing of banking transactions has been restructured to include proper financial and operational controls. As the auditors and we agreed, a new reconciliation format has been developed, and is currently in use, that conforms to industry practice and captures detailed transaction activity. A large number of specific steps have been taken in order to implement the restructured reconciliation process. In addition to, and supporting the restructuring of the reconciliation report and format, the steps taken include:

- We have determined that a daily reconciliation is the only way to accurately monitor the State's banking activity, providing the ability to quickly identify and respond to any processing irregularities. We will perform a daily reconciliation.
- We developed and implemented an ACH tracking schedule to ensure properly recorded activity from the bank to R*STARS. This process uncovered approximately \$8 million in tax dir•

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Finding Number 2003-1 (continued)

- We have begun the re-examination of the unmatched book and bank deposit transactions in the June-August 2003 period in order to help identify the unreconciled balance. We will then resolve subsequent disparities.
- We have been working closely with State agencies, particularly the Comptroller's Office, to develop a reconciliation process that is accurate and reliable. The process requires close inter-agency coordination.

We have begun testing the deposit match process using TrinTech, the new automated reconciliation and processing system. As discussed at our legislative budget hearings, we believe that it might be prudent to postpone the implementation of the new system until after the beginning of the next fiscal year, in order to make the agency close-out procedures clear and uncomplicated.

It should be noted that throughout the restructuring process, we are continuing to define and document previously unknown processing issues that affect the reconciliation. The volume of these aberrations, unfortunately, has slowed our progress toward isolating the final balance discrepancy, but it has also enhanced the new reconciliation process and given us assurance that the final complete reconciliation will be comprehensive and accurate. We strongly believe our achievements will facilitate the preparation of accurate, complete, and timely financial statements.

Auditee Updated Response: The above plan has been implemented.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Maryland State Department of Education (MSDE)
<i>Program</i>	Improving Teacher Quality State Grants
<i>CFDA Number</i>	84.367
<i>Finding Number</i>	2003-2
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The corrective action reported in our last update is still in force. Specifically, the Division of Business Services (DBS) has implemented the following corrective action plan: <ul style="list-style-type: none">• Effective August 1, 2003, the Head of the General Accounting Section has run a report from the EGAPS system which reflects all executed Department of Education grants. This report will be obtained on a monthly basis and any new grants will be added to the query in R*STARS which provides eligible drawdown amounts.• Effective April 1, 2004, supervisory reviews are performed by the Chief of the Accounting Branch prior to requesting any drawdown of federal funds. In the absence of this employee, the Chief of Expenditures will perform this task.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Department	State Treasurer's Office
Program	National School Lunch Program (NSLP); Child and Adult Care Food Program; State Administrative Matching Grants for Food Stamp Program; Unemployment Insurance; Federal Transit: Capital Investment Grants; Federal Transit: Formula Grants; Title I Grants to Local Education Agencies; Special Education: Grants to States; Rehabilitation Services: Vocational Rehabilitation Grants to States; Temporary Assistance to Needy Families; Child Support Enforcement; Low-Income Home Energy Assistance (LIHEAP); Foster Care: Title IV-E; State Children's Insurance Program (SCHIP); Medical Assistance Program (Medicaid); and Block Grants for Prevention and Treatment of Substance Abuse
CFDA Number	10.555, 10.558, 10.561, 17.225, 20.500, 20.507, 84.010, 84.027, 84.126, 93.558, 93.563, 93.568, 93.658, 93.767, 93.778, and 93.959
Finding Number	2003-3
Comment	<p>Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: On March 4, 2004, the office of the State Treasurer completed development and recertification related to Average Clearance Vendor and Average Clearance Payroll check clearance patterns. We have replaced Average Clearance Vendor (9 Day Pattern) and Average Clearance Payroll (1 Day Pattern) with Dollar Weighted Clearance Day Vendor (8 Day Pattern) and Dollar Weighted Clearance Day Payroll (1 Day Pattern) accordingly. We developed the patterns in accordance with a method approved by Financial Management Service (FMS), U.S. Department of the Treasury, including auditable calculations and maintenance of all supporting documentation.</p> <p>The Office will work with the appropriate State agencies to start using the new check clearance patterns with transactions beginning on March 28, 2005.</p> <p>The State executed a multi-year Treasury-State Agreement in October 2004 that runs through June 30, 2009. Amendments to the Treasury-State Agreement resulting from the recertification procedures will be made on a timely basis.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Department	Department of Human Resources (DHR)
Program	Adoption Assistance and Temporary Assistance for Needy Families
CFDA Number	93.659 and 93.558
Finding Number	2003-4
Comment	<p>Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The U.S. Department of Health and Human Services (HHS) accepted the Department’s Corrective Compliance Plan in July 2004. DHR has completed almost all of the milestones necessary to ensure compliance with the plan. The only remaining item is the completion of training with the state’s fiscal and program staff, which is scheduled for February 22, 2005.</p> <ol style="list-style-type: none">1. The Department will make every effort to fill financial management vacancies by September 30, 2004. <i>The Department’s Director of Grants Management started on November 22, 2004.</i>2. The Department must engage in a complete review of its fiscal year 2002 and fiscal year 2003 accounting records and make any required adjustments to the TANF grants. <i>Grants Management staff worked with the Region III office to review the records and make the required adjustments.</i>3. HHS staff will train the state’s fiscal and program staff in TANF rules and policies. <i>The first training session is scheduled for February 22, 2005. This will complete the corrective compliance process.</i>4. State program staff will provide an overview of the TANF state plan to all fiscal staff that has any involvement in TANF or TANF MOE funds. <i>In addition to providing information on the current TANF state plan, program staff is working with fiscal staff to revise the plan.</i>5. Copies of any budget amendments submitted in accordance with the Maryland General Assembly’s requirements regarding TANF transfers, increases or decreases will be maintained for possible audit by ACF staff during the corrective action compliance term and beyond that term in accordance with previously established record retention schedules. <i>The Department has maintained all records.</i>6. Region III approvals of any TANF claim for expenditures normally claimed to another source of funding. <i>The Department has sought approval from Region III and will continue to do so.</i>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Human Resources (DHR)
<i>Program</i>	Adoption Assistance Program
<i>CFDA Number</i>	93.659
<i>Finding Number</i>	2003-5
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The Department’s approved Cost Allocation Plan funds caseworkers administrative costs using a Time Study to determine benefiting programs. The Time Study results identify adoption activity. DHR considered these expenditures to be

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Human Resources (DHR)
<i>Program</i>	Adoption Assistance Program
<i>CFDA Number</i>	93.659
<i>Finding Number</i>	2003-6
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The Department properly adjusted the Federal Financial Assistance reports to correctly reflect expenditures on a cash basis. In addition, the Director of Grants Management will review the reports to ensure expenditures are on a cash basis for both Foster Care and Adoption Assistance.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Health and Mental Hygiene (DHMH)
<i>Program</i>	Medicaid Cluster
<i>CFDA Number</i>	93.775, 93.777 and 93.778
<i>Finding Number</i>	2003-7
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The Executive Director of Family Investment Administration (FIA), Department of Human Resources was sent a letter from the Executive Director of the Office of Operations, Eligibility & Pharmacy, DHMH, on August 25, 2004. The letter requested corrective action plans to address the audit findings of Ernst & Young. The FIA responded to the Office of Operations, Eligibility & Pharmacy on October 4, 2004 with a corrective action plan that identified the actions taken to address the findings and the contact person in charge of the action. DHMH has identified these as technical errors committed by the Department of Human Resources. Payments for services rendered to an ineligible recipient based on a technical error is not recoverable, therefore a referral to the Division of Recovery and Finance is not warranted.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Health and Mental Hygiene (DHMH)
<i>Program</i>	Medicaid Cluster
<i>CFDA Number</i>	93.775, 93.777 and 93.778
<i>Finding Number</i>	2003-8
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan: All drawdown requests to General Accounting have been reviewed and signed by the Chief of Budgeting/Accounting/Revenue Division. Drawdown requests can be reviewed in DHMH General Accounting Division.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Health and Mental Hygiene (DHMH)
<i>Program</i>	Medicaid Cluster
<i>CFDA Number</i>	93.775, 93.777 and 93.778
<i>Finding Number</i>	2003-9
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan: We feel that our last year responses to the finding completely and accurately responded to the issues raised by the auditors. In the interim, there have been four quarterly reviews of our fiscal year 2004 Centers for Medicare and Medicaid Services (CMS) 64 submissions by the CMS Region III, and CMS has expressed none of the concerns raised by the auditors with regard to our data presentation. We want to supply the data in the manner and format required by CMS, and as far as we understand, we are doing that. If the auditors feel that there are still issues to be discussed, we suggest either a meeting or conference call between the auditors, CMS Region III, and ourselves. We are ready to work with CMS to achieve any data presentation changes that they require.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Health and Mental Hygiene (DHMH)
<i>Program</i>	Medicaid Cluster
<i>CFDA Number</i>	93.775, 93.777 and 93.778
<i>Finding Number</i>	2003-10
<i>Comment</i>	Unresolved by the Federal Government – Original Response and Corrective Action Plan: The Department of Health and Mental Hygiene agrees with the audit

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Department Department of Health and Mental Hygiene (DHMH)
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2003-11
Comment **Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan:** An error existed in the automated interface between Client Automated Resource Eligibility System (CARES) and Medicaid Management Information System (MMIS) which prevented certain cancel transactions from being properly communicated. This error has been corrected. MMIS produces error reports which are reviewed and resolved by staff daily. The monthly reconciliation report has been modified to ensure that the reports capture all data which identify cases closed on CARES but active on MMIS. These reconciliation reports are reviewed and resolved each month. DHMH will identify the cost of any improper Medical Assistance payments and make appropriate adjustments with the U.S. Department of Health and Human Services.

Corrective action plan is in place. A system review was conducted on the 12,000 cases

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Maryland State Department of Education Department (MSDE)
<i>Program</i>	Child Nutrition Cluster
<i>CFDA Number</i>	10.553, 10.555, 10.556 and 10.559
<i>Finding Number</i>	2003-13
<i>Comment</i>	Unresolved by the Federal Government – Original Response and Corrective Action Plan: MSDE concurs with this finding.

MSDE will draw down funds for this program in accordance with the nine-day clearance pattern specified in the CMIA agreement. Similarly, interest calculations will be calculated utilizing the nine-day clearance pattern for this program via the

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Finding Number 2003-13 (continued)

Condition from Original Finding:

We noted 5 out of 7 federal cash drawdown transactions out of a population of cash drawdowns occurring during the year tested were not executed in accordance with the Cash Management Improvement Act Agreement (CMIA). We noted that the federal cash drawdowns were anywhere from 2 days early to 2 days late. Additionally, we noted that interest was not properly calculated in 6 out of 7 transactions tested that resulted in interest.

Transaction Date on Transmittal Log	Date Federal Funds Received	Date Federal Funds Should Have Been Received	Days (Early)/Late	MSDE Calculated Interest	Auditor Calculated Actual Interest	Net Result of Interest Calculation- State Federal Receivable or (Liability)
06/21/2002	07/01/2002	06/29/2002	2	\$ -	\$ 1,162.06	\$ 1,162.06
10/23/2002	10/30/2002	10/31/2002	(1)	(1,000.15)	(500.07)	500.08
11/21/2002	11/27/2002	11/29/2002	(2)	(1,197.71)	(1,197.71)	-
12/18/2002	12/27/2002	12/26/2002	1	-	455.17	455.17
01/21/2003	01/30/2003	01/29/2003	1	-	328.79	328.79
02/21/2003	02/28/2003	02/28/2003	-	(874.74)	-	874.74
03/21/2003	03/28/2003	03/28/2003	-	(345.54)	-	345.54

Auditee Response:

The above exhibit of 7 transactions is included in the audit finding by the E&Y auditor. In the display above, some information applied in the calculations such as; the principal amounts, the annual interest rate and how the clearance date is determined is not specifically evident. Furthermore, the auditor exhibit shows MSDE calculations that were superseded. To fill in the information and display updated MSDE calculation data, STO has prepared attachment titled "STO Interest Calculation and Comparison to MSDE Calculation." The STO prepared schedule will also facilitate accurate computation of interest liability or receivable.

The auditor declares two origins of the discovered audit finding. The first condition states "5 of 7 transactions tested were not executed in accordance with CMIA agreement." The 5 transactions listed in the "Auditor Calculated Actual Interest Column" of the auditor prepared exhibit display the transactions that E&Y finds as not being executed according to CMIA agreement. Furthermore, E&Y clarified, at the exit interview with MSDE, that MSDE interpretation of transmittal date (start date) was

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Finding Number 2003-13 (continued)

Auditee Response:

According to the audit finding, E&Y provides 2 reasons as cause for the audit finding. The auditor states the first cause as “the transmittal date on the original documentation was not always used by MSDE when determining the actual date that the federal funds should be drawn.” However, according to STO review, MSDE did use the transmittal date on the original documentation according to the TSA (Treasury State Agreement). Furthermore, documentation to support this was given to E&Y in the form of a

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Summary Schedule of Prior Audit Findings (continued)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Finding Number 2003-13 (continued)

MSDE Calculation Comparison to STO Calculation for Transaction #7

	A	B	C	D	E	F	G	H
	Transaction Amount	Transaction Date	Federal Funds Received Date	Calculated Clearance Date	Adjustment for Weekends and Holidays	Calculated Clearance Date	Days (Early)/Late	Interest (Liability) Receivable
**7 MSDE	5,706,863.89	03/21/2003	03/28/2003	03/30/2003	(1)	03/29/2003	(1)	\$(206.39)
STO	5,706,863.89	03/21/2003	03/28/2003	03/30/2003	1	03/31/2003	(3)	(619.16)
						Difference	(2)	(412.77)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Health and Mental Hygiene (DHMH)
<i>Program</i>	Center for Disease Control and Prevention: Investigations and Technical Assistance
<i>CFDA Number</i>	93.283
<i>Finding Number</i>	2003-14
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Response and

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Department Department of Health and Mental Hygiene (DHMH)
Program Center for Disease Control and Prevention: Investigations and Technical Assistance
CFDA Number 93.283
Finding Number 2003-15
Comment **Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan:**

Revenue

The Department ensured that revenue per R*STARS, the Schedule G and applicable federal report (i.e., PCS 272-B) was reconciled for fiscal year 2004.

Expenditures

The Department ensured that cumulative grant expenditures reported on the Financial Status Report (SF 269) agree with R*STARS. In addition, at June 30, 2004 we ensured that the expenditure amount reported on the PSC 272-A (Federal Cash Transaction Report) reconciled with R*STARS and the Schedule G.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Human Resources (DHR)
<i>Program</i>	Child Support Enforcement
<i>CFDA Number</i>	93.563
<i>Finding Number</i>	2003-16
<i>Comment</i>	<p>Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The Department conducts quarterly management reviews of Child Support federal fund draws after submitting the quarterly federal financial report. The review is an in-depth analysis of funds drawn compared to actual reported expenditures to determine the adjusting draw that must be made within 45 days of a quarter's end, per the Treasury State Agreement (TSA). Management's determination of the quarterly cash adjustment is supported by an analysis of our award balance and adjusting awards to be received to cover actual reported expenditures. The individuals responsible for drawing Child Support federal funds also generate a quarterly adjusting figure. Only when the two independent adjusting figures reconcile is an adjusting draw request processed.</p> <p>The finding that management is not reviewing each federal fund request is correct. Since the components and techniques of the TSA are strictly adhered to, a review was not deemed necessary. However, in September 2004, the Department instituted a process by which management reviews draw requests on a test basis. The requests that are reviewed by management are signed, dated and retained with the requests for audit purposes.</p>

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Human Resources (DHR)
<i>Program</i>	Child Support Enforcement

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Summary Schedule of Prior Audit Findings (continued)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

<i>Department</i>	Department of Human Resources (DHR)
<i>Program</i>	Child Support Enforcement
<i>CFDA Number</i>	93.563
<i>Finding Number</i>	2003-19
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: We are in the process of enhancing our automated system to capture the collection process as required on OCSE – 34A Report Final Ruling dated October 1, 2003. These enhancements would include the supporting documents that detail all collections, distributions and maintained for audit reviews. All supporting documents will be maintained in a binder for audit trail.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2003 (continued)

Department Department of Human Resources (DHR)
Program Food Stamp Cluster
CFDA Number 10.551 and 10.561
Finding Number 2003-21
Comment **Unresolved by the Federal Government – Auditee Updated Corrective Action Plan:** DHR concurred with the recommendation that it should obtain a SAS 70 report that provides sufficient coverage which allows DHR to rely on the internal controls over the outsourced operations of the Client Automated Resource Eligibility System (CARES) operating environment.

Ernst & Young LLP in their *State of Maryland, Single Audit Report*, for the year ended June 30, 2003, cited DHR for failing to comply with the requirements of **Statement of Auditing Standards No. 70 (SAS 70), Service Organizations**, writing “Upon review of two reports provided to DHR, it was noted that the testing period was for only five months of the State’s fiscal year ending June 30, 2003. In order for reliance to be placed on a SAS 70 report, it should cover a sufficient portion of the financial audit period to demonstrate that controls were operating as intended.”

In reviewing the SAS 70 report cited above, DHR concluded that the testing period, covering only five months, was insufficient. Consequently, in the subsequent, and most recently completed SAS 70 review of DHR’s outsourcing operation, the independent auditor, Rufus Ingram, Certified Public Accountant, as part of its audit conducted “. . . tests of the operating effectiveness covers the period from May 1, 2003 through April 30, 2004.”

Rufus Ingram, CPA, also noted in his report dated June 25, 2004 that “The control objectives were specified by the management of IBM Global Services. Our examination was performed in accordance with standards established by the *American Institute of Certified Public Accountants* (AICPA) and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.”

As a result of his review, Rufus Ingram, CPA, concluded that “Our review indicated that IBM Global Services has designed and implemented controls to meet all of the control objectives suggested by CMS. In addition, we determined that the controls appear to be operating effectively.”

DHR, therefore, concludes that it has complied with the original recommendation noted in Finding 2003-21 recommending that “DHR should make the necessary arrangements to have the report prepared in accordance with AICPA guidelines, cover a minimum of six months.”

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002

Department Health and Mental Hygiene
Program Special Supplemental Nutrition Program for Women, Infants and Children
CFDA Number 10.557
Finding Number 2002-1
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** Although WIC Program staff conducted sight visits to local agencies within the federal fiscal year, operational reports were not reviewed until October and November due to the staff constraints. Letters with findings were sent to the two local agencies in November 2002.

Since the new management information system, WIC WINS, has been implemented statewide, State WIC staff has the time to conduct the evaluations according to the schedule. The 2003 management evaluation schedule is being monitored to ensure the completion as specified in the federal regulations.

Auditee Updated Response: Management evaluations continue to be conducted according to the schedule that has been developed.

Department Health and Mental Hygiene
Program Special Supplemental Nutrition Program for Women, Infants and Children
CFDA Number 10.557
Finding Number 2002-2
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** The WIC Program does not recall being asked for a reconciliation of food instruments. Although the Program was in the process of implementing a new information system in February 2002, it was able to reconcile food instruments under both the old and new system. Food instruments continue to be reconciled on a monthly basis.

Auditee Updated Response: Food instruments reconciliation is performed monthly, and a reconciliation report is included in the WIC Management Information System.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Health and Mental Hygiene
Program Substance Abuse Prevention and Treatment Block Grant
CFDA Number 93.959
Finding Number 2002-3
Comment **Unresolved by the Federal Government – Original Response and Corrective Action Plan:** ADAA agrees with the audit finding. The agency will take the necessary steps to implement a tracking system that will ensure better compliance with federal regulations. ADAA is currently developing a new grants management data collection system. The agency also has approval to hire a federally funded SAPT Block Grant Coordinator. The grants data system and the SAPT coordinator will further enable ADAA to meet all federal Block Grant tracking requirements.

This action plan applies to necessary actions relative to 45 CFR section 96.128(f) for HIV, 45 CFR section 96.127(c) for tuberculosis, and 45 CFR section 96.124(c) for pregnant women and women with dependent children.

Auditee Updated Response: The Alcohol and Drug Abuse Administration (ADAA) continues to comply with audit recommendations and update its data as necessary. A new Substance Abuse Prevention and Treatment (SAPT) Block Grant Coordinator has

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Summary Schedule of Prior Audit Findings (continued)

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Human Resources
<i>Program</i>	Temporary Assistance to Needy Families, Child Care and Development Block Grant, Child Care Mandatory and Matching Funds of the Child Care Development fund, and Social Services Block Grant
<i>CFDA Number</i>	93.558, 93.575, 93.596, and 93.667
<i>Finding Number</i>	

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Human Resources
<i>Program</i>	Low Income Home Energy Assistance
<i>CFDA Number</i>	93.568
<i>Finding Number</i>	2002-7
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: In the case of Neighborhood Service Center, during annual site visits by State Office of Home Energy Programs (OHEP) staff on June 4, 2003 and June 30, 2004, the agency's Single Audit reports were reviewed and non-compliance issues were not cited. In the case of Anne Arundel County Economic Opportunity Committee, Inc. (EOC), their Single Audit for 2002 and 2003 by an independent auditor disclosed no repeat findings. The final reconciliation of Anne Arundel's Maryland Energy Assistance Program (MEAP) funds matched State records. All local MEAP funds were properly accounted. Two subsequent site visits to Anne Arundel County EOC on April 3, 2003 and on March 10, 2004 confirmed compliance. In summary, the Department has procedures to insure corrective action plans are enforced. The OHEP monitoring team follows procedures developed by the program. A monitoring instrument is used to provide consistent implementation and controls for the process. The documentation is maintained in the unit as a record of the site visits and for any required follow up actions. By the end of June 2005 site-monitoring visits will be completed to confirm the corrective actions for problems identified in the two cited subrecipient audits.
<i>Department</i>	Human Resources
<i>Program</i>	Low Income Home Energy Assistance
<i>CFDA Number</i>	93.568
<i>Finding Number</i>	2002-8
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: In 2004, State Office of Home Energy Programs (OHEP) staff made site visits to all subrecipient agencies. During site monitoring visits, the State monitors reviewed both 2002 and 2003 local administrative ag

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Summary Schedule of Prior A

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Program	State Treasurer's Office School Breakfast Program, National School Lunch Program, Child and Adult Care Food Program, State Administrative Matching Grants for Food Stamp Program, Employment Services, Unemployment Insurance Program, Welfare-to-Work Grants to States and Localities, Workforce Investment Act, Airport Improvement Program, Federal Transit: Capital Investment Grants, Federal Transit: Formula Grants, Title I Grants to Local Education Agencies, Special Education: Grants to States, Vocational Education: Basic Grants to States, Rehabilitation Services: Vocational Rehabilitation Grants to States, Reading Excellence, Class Size Reduction, Temporary Assistance to Needy Families, Child Support Enforcement, Low-Income Home Energy Assistance, Foster Care: Title IV-E, Medical Assistance Program, HIV Care Formula Grants, Block Grants for Prevention and Treatment of Substance Abuse, and Social Security: Disability Insurance
CFDA Number	10.553, 10.555, 10.558, 10.561, 17.207, 17.225, 17.253, 17.255, 20.106, 20.500, 20.507, 84.010, 84.027, 84.048, 84.126, 84.338, 84.340, 93.558, 93.563, 93.568, 93.658, 93.778, 93.917, 93.959, and 96.001
Finding Number	2002-10
Comment	Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan: On March 4, 2004, the office of the State Treasurer completed development and recertification related to Average Clearance Vendor and Average Clearance Payroll check clearance patterns. We have replaced Average Clearance Vendor (9 Day Pattern) and Average Clearance Payroll (1 Day Pattern) with Dollar Weighted Clearance Day Vendor (8 Day Pattern) and Dollar Weighted Clearance Day Payroll (1 Day Pattern) accordingly. We developed the patterns in accordance with a method approved by Financial Management Service (FMS), U.S. Department of the Treasury, including auditable calculations and maintenance of all supporting documentation. The Office will work with the appropriate State agencies to start using the new check clearance patterns with transactions beginning on March 28, 2005. The State executed a multi-year Treasury-State Agreement in October 2004 that runs through June 30, 2009. Amendments to the Treasury-State Agreement resulting from the recertification procedures will be made on a timely basis.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Labor, Licensing and Regulation
<i>Program</i>	Unemployment Insurance Program
<i>CFDA Number</i>	17.225
<i>Finding Number</i>	2002-14
<i>Comment</i>	

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Labor, Licensing and Regulation
<i>Program</i>	Unemployment Insurance Program
<i>CFDA Number</i>	17.225
<i>Finding Number</i>	2002-15
<i>Comment</i>	Unresolved by the Federal Government – Original Response and Corrective Action Plan: The agency concurs with this finding. Current grant accounting systems within DLLR do not allow for a complete reconciliation of costs between the R*STARS system and the system used for grant accounting (the FARS system). Secretary Fielder has directed DLLR to establish a working group that will find the methods needed to identify and reconcile R*STARS and FARS differences down to the employee and grant level. The Secretary has stated that should these efforts prove

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Maryland State Department of Education
<i>Program</i>	Rehabilitation Services: Vocational Rehabilitation Grants to States
<i>CFDA Number</i>	84.126
<i>Finding Number</i>	2002-17
<i>Comment</i>	<p>Unresolved by the Federal Government – Auditee Updated Corrective Action Plan: The Division of Rehabilitation Services has implemented the following corrective action plan:</p> <ul style="list-style-type: none">• Administrative Instruction 03-06, “60-Day Eligibility Determination” was disseminated on March 31, 2003, to clarify and reinforce the requirement to make eligibility decisions within the 60-day time frame. It also included procedures to be used in the new case management system, AWARE, when making eligibility decisions and when there is a need for an extension: http://intranet/issuances/Intranet/AI03Folder/ai0306.htm• Statewide staff training was held March 26, April 1, April 9 and April 15, 2003 related to implementation of AWARE. “Timely Eligibility Decisions” was a main agenda item and was presented by the Special Assistant to the Assistant State Superintendent. The presentation included the finding of noncompliance; the importance of making timely eligibility decisions; AWARE procedures to assure appropriate documentation; and required actions.• DORS MIS Branch completed testing and has fully integrated the 60-day Eligibility Report into the AWARE Case Management System in August 2004.• On a monthly basis, supervisors are reviewing a report with counselors of cases that are nearing the 60-day requirement in an effort to make timely decisions. In the event that the decision cannot be made within 60 days, the counselor will complete the “extension of time to deem eligibility” form stating the reason for the extension and the length of time of the extension.

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Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Maryland State Department of Education
<i>Program</i>	Title I Grants to Local Educational Agencies and Rehabilitation Services: Vocational Rehabilitation Grants to States
<i>CFDA Number</i>	84.010 and 84.126 <i>CFR 70 11m</i>

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-23
Comment **Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan:** We feel that our last year responses to the finding completely and accurately responded to the issues raised by the auditors. In the interim, there have been four quarterly reviews of our fiscal year 2004 Centers for Medicare and Medicaid Services (CMS) 64 submissions by the CMS Region III, and CMS has expressed none of the concerns raised by the auditors with regard to our data presentation. We want to supply the data in the manner and format required by CMS, and as far as we understand, we are doing that. If the auditors feel that there are still issues to be discussed, we suggest either a meeting or conference call between the auditors, CMS Region III, and ourselves. We are ready to work with CMS to achieve any data presentation changes that they require.

Department Department of Health and Mental Hygiene
Program Medicaid Cluster
CFDA Number 93.775, 93.777 and 93.778
Finding Number 2002-24
Comment **Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan:** The Department has received clearance pattern information from the Comptroller’s Office and is awaiting a response from the Treasurer’s Office. The Department will request this information annually and maintain it on site for audit purposes.

State of Maryland

Summary Schedule of Prior Audit Findings (continued)

Single Audit Findings for Fiscal Year Ended June 30, 2002 (continued)

<i>Department</i>	Department of Health and Mental Hygiene
<i>Program</i>	Medicaid Cluster
<i>CFDA Number</i>	93.775, 93.777 and 93.778
<i>Finding Number</i>	2002-25
<i>Comment</i>	Unresolved by the Federal Government – Auditee Updated Response and Corrective Action Plan: An error existed in the automated interface between Client Automated Resource Eligibility System (CARES) and Medicaid Management Information System (MMIS) which prevented certain cancel transactions from being